VETERANS' INSURANCE PROGRAMS

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BEFORE THE

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OF THE

COMMITTEE ON VETERANS' AFFAIRS HOUSE OF REPRESENTATIVES

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VETERANS' INSURANCE PROGRAMS

THURSDAY, MARCH 25, 1982

House of Representatives,
Committee on Veterans' Affairs,
Subcommittee on Compensation, Pension, and Insurance,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 334, Cannon House Office Building, Hon. Sam B. Hall (chairman of the subcommittee) presiding.

Members present: Representatives Hall, Dowdy, Wylie, Albert Smith, and Siljander.

OPENING STATEMENT OF CHAIRMAN HALL

Mr. **Hall**. Good morning, ladies and gentlemen. The Subcommittee on Compensation, Pension, and Insurance will come to order.

This morning we meet to consider legislative proposals regarding the insurance programs administered by the Veterans Administration. These are draft proposals which have not yet been formally introduced.

We will also focus on the general oversight of the Veterans' Administration's insurance programs, as well as the Servicemen's Group Life Insurance program.

The Veterans' Administration, the uniformed services, and the Prudential Life Insurance Co. of America each play an important part and have different responsibilities in the operation of these beneficial programs. Generally, they are working well.

In 1980, the General Accounting Office reported some problems in collecting premiums for Servicemen's Group Life Insurance from certain newly enlisted reservists and also said that the various uniformed services were not consistent in their dates of coverage for these individuals.

Today we will hear from the witness for the Department of Defense on their progress on collection of these delinquent premiums and on the problem of effective dates for initial insurance coverage.

The Veterans' Administration will also discuss proposals bearing on time limits for filing claims for Servicemen's Group Life Insurance, as well as to prevent escheat of these funds.

Another proposal would give active service personnel the option to purchase additional Servicemen's Group Life Insurance coverage at their own expense.

Several of the veterans' organizations have asked that their statements be entered in the record, and, without objection, it will be so ordered.

At this time I would like to recognize Mr. Wylie, the ranking minority member of this subcommittee.

Mr. Wylie?

STATEMENT OF HON. CHALMERS P. WYLIE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. **Wylie**. Mr. Chairman, I appreciate the opportunity to offer an opening statement and to join you in welcoming the witnesses this morning, who will be discussing the insurance program administered by the Veterans' Administration, or which come under this broad umbrella of insurance.

These programs are involved in some $150 billion of insurance protection and concern some 7.7 million veterans. Obviously, programs of such magnitude are of great interest to the subcommittee.

Mr. Chairman, I recall that last year the Veterans' Administration substantially increased the interest rate on loans made on some GI insurance policies. I would be interested in receiving this morning information as to what effect this has had upon the number of loans being made. Did the increase in rates reduce the number of such loans?

Mr. Chairman, I note that the testimony of Mr. Melidosian appears to be very complete and all-encompassing, and that affords me the opportunity to say that I am anxious to hear him. But beyond that, he is known as one of the most outstanding civil servants in the entire public service. He has received many awards for his accomplishments, including a prestigious Presidential citation. He is an old friend of this committee, who comes to us with extremely good credentials.

Thank you very much, Mr. Chairman, for allowing me this opening statement.

Mr. **Hall**. Thank you, Mr. Wylie.

We will now hear from our first witness, Mr. S. W. Melidosian of the Veterans' Administration. If you will introduce those who are accompanying you, sir, you may then proceed in any manner that you wish.

If you care to summarize your entire statement, it will, without objection, be entered in the record.

STATEMENT OF S. W. MELIDOSIAN, DIRECTOR, VETERANS' ADMINISTRATION CENTER

Mr. **Melidosian**. Yes; thank you, Mr. Chairman.

Good morning. I am quite flattered. I am S. W. Melidosian, Director of the Veterans' Administration Center; and I am pleased to represent Miss Dorothy Starbuck, Chief Benefits Director.

I am accompanied this morning by Mr. Robert Carey, who is the assistant director for insurance, at my immediate left, and Mr. Paul Koons, the chief of policy and procedure, at my immediate right, Stephen Wurtz, the chief of standards and evaluation. Most of these gentlemen are from insurance program management.

Also joining us this morning are two representatives from the Veterans' Administration General Counsel's Office, Mr. Ed Lukey, an assistant deputy general counsel, and Don Zeglin, who is an attorney. Both have assisted us and your committee in drafting legislation for the insurance program.

The Veterans' Administration appreciates this opportunity to address the subcommittee to review the status of various insurance programs which the Veterans' Administration administers and supervises, and also to review legislative proposals.

Rather than read the complete testimony, which is a comprehensive report submitted for the committee's oversight, I would attempt to summarize some of the major points of the program, in particular, areas that we know are of concern to this committee.

However, I shall be guided by the Chair.

To put the insurance program into perspective, first in terms of its relative size, we administer, as was mentioned a few moments ago, $151 billion of insurance for a program covering 7.7 million veterans and service personnel. This makes it probably the largest insurance activity for life insurance.

However, the impact of these programs on the economy can be gaged to some extent by the value of the dollar disbursements to policyholders and beneficiaries. The total death payments authorized for the year 1981 amounted to $564 million. An additional $620 million was authorized in dividends and $105 million was paid to veterans whose policies matured or were surrendered.

Additionally, this year the dividends will amount to $665 million.

With the exception of Service-Disabled Veterans Insurance, the programs that we refer to as National Service Life Insurance, and the U.S. Government Life Insurance program, are totally self-supporting. They are funded fully. They are actuarily sound, and they have creditable reserves.

The administrative expenses, however, are paid out of appropriated moneys, whereas, the Servicemen's Group Life and the Veterans Group Life insurance program are totally self-supporting, including administrative costs. The only National Service Life Insurance program in which policies are presently being issued is what is referred to as the service-disabled veterans insurance.

This program is open and available to those people that have been rated service-connected for Veterans' Administration compensation purposes.

We are currently issuing approximately 8,000 of these policies per year. A recent study done by the staff would indicate that 50 percent of the policies are issued to veterans who are 20 percent or less service-connected disabled, and approximately 20 percent of the policies are issued to veterans who have 60 percent or more of a disability.

The cost of this program, however, is chargeable to appropriated funds, and the cost per policy is approximately $400 per thousand of face coverage, or, roughly, $3,700 per policy.

There are two other areas in National Service Life and U.S. Government Life Insurance that should be touched upon because of prior interest of the committee.

I will first speak of the U.S. Government Life Insurance, which sometimes is referred to as World War I-type insurance. However, only 55 percent of those policies are held by veterans who would be of the age for World War I, whereas 45 percent are at an age that would indicate they served after world war I and prior to October 1940.

The USGLI program is a closed program. It presently has 90,000 policies. We are most pleased to say that, of the 464 term policies that exist in that program, 65 percent of the premiums are being refunded in dividends. For all practical purposes, almost all of the 90,000 who hold permanent plans are receiving more in dividends than their premium. This is an aspect of dealing with a program that is, in its full sense, a mature program.

The death rate last year was slightly in excess of 7,000 cases, and it's running at a death rate of, probably this year, 7½ percent of the total policyholders.

The Administrator and the Chief Benefits Director will be meeting with Mr. Carey and members of our staff in about 2 weeks. One of the programs that will be discussed will probably be an attempt, an innovative attempt, to deal with the USGLI as a closed out, paid up program, since the receipts now are less than the disbursements from the trust fund.

Another point under National Service Life Insurance has been a subject of some inquiry on the part of the chairman of this committee, concerns the term policies held by National Service Life Insurance policyholders.

There are now 32 percent of our total policies under National Service Life Insurance which are term, that is, about 1 million. 2.3 to 2.4 million policies are permanent plans. I shall use just four figures to look at one group of accounts.

Picking age 60 of the World War II veterans who hold term policies, there are 66,000 such policies, the largest single group at any age. There are, similarly, 153,000 permanent policies at age 60.

The mortality rate of those two, which has been a subject of some discussion, continues to track with the same ratio as reported previously. The mortality rate for the term policy tracks ahead of the permanent plan. Using the best actuarial tables available for this type of data under today's contemporary environment, the term policies are running at almost 90 percent of the predictable death rate, whereas the permanent policies are slightly under 70 percent. Or stated differently, the term policies have one-third more mortality projected than do the permanent plans. Or, conversely, the permanent plans have only 78 percent of the mortality of the term policies.

One other figure we do, nevertheless, look at, are the renewals. Term policies can be renewed every 5 years. At age 65, 90 percent of those eligible renew their term policy. At age 70, it's 89.5; at age 75, it's 89. at age 85, it's 87.

That does not tell the whole story, however. In reality, at age 70, 96 percent of those that were renewed at 65, renew; and, similarly, 95 and 93 percent. So actually terminations are due more to death rate rather than to the groups nonselection.

This plan also is going to be reviewed shortly, but before stating that, let me again say that there are still three options open to most insureds in the upper age term groups. These options include modified life age 65 and modified life age 70 which was enacted by legislation initiated by this committee, and ordinary life, which is still a good economic decision.

We propose to review with the Administrator this program again and look forward to possibly finding a way to devise a ceiling premium at the upper ages, using surplus funds that have been accumulated by design in the reserves over the past half a dozen years.

A major change in the National Service Life Insurance program over the past year was a change in the policy loan rate. The rate was increased on July 29, 1981, from 5 to 11 percent.

In view of the Administrator's responsibility to manage the insurance trust funds for the best interests of the policyholders, both borrowers and nonborrowers alike, the interest rate was raised, so that the earnings on both loans and investments would be more compatible.

With the increase in the loan rate, there has been a decrease in loan activity. From September 1981, through January 1982, there has been a 29-percent decrease in loans processed over the identical period from 1980 to 1981.

This has resulted in the decrease of almost $18 million in loan values granted.

I would now like to touch upon a plan to notify policyholders of the provisions of the Veterans Disability Compensation, Housing, and Memorial Benefits Amendments of last year, which was Public Law 97-66 from the committee, dealing with a payment of insurance proceeds in a lump sum.

The provision permits a lump-sum payment for National Service Life Insurance and U.S. Government Life Insurance, when no settlement option has been selected. We, as the agency, supported that legislation and testified accordingly. We are now in the process of a test mailing to 1,000 policyholders who could possibly be affected by this provision. This test will allow us to assess the actual costs of such an undertaking and the workloads that it will create for the processing staff.

If we were to take a package which had been designed by the staff and do a mailing with a 5-percent return, our initial cost estimates would be three-quarters of a million dollars to make that mailing. We are going to test that against the 1,000 mailing. Of course, we will be reporting to the committee because of your sponsorship of that legislation and your continued interest.

Public Law 97-66 also increased the maximum coverage for SGLI and VGLI from $20,000 to $35,000, effective December 1, 1981. The automatic increase to $35,000 does not apply to the retired reserves with Servicemens Group Life coverage. The 33,312 retired reservists were, however, mailed applications for the increased coverage. As of March 15 this year, 19,600, 59 percent of them, had applied for the additional coverage, and 95 percent of these applications was for the maximum permitted.

As with Servicemen's Group Life, the maximum coverage for the Veterans Group Life increased to $35,000. However, the amount of Veterans Group Life coverage an individual may obtain still can not exceed the amount the person had while in service with Servicemen's Group Life.

Due to the continued favorable mortality experiences, reserve earnings continue to increase. We are considering a reduction of premium rates for the Servicemen's Group Life plan. Premium collections have been sufficient to cover all of the costs. There will be more of this discussion as we proceed.

As the subcommittee is aware, the General Accounting Office on May 1, 1980, issued a report entitled "Problems in Administering the Service Group Life Insurance Program in the Ready Reserve." One of the findings of that report was that some branches of the uniformed services were not forwarding to the Veterans' Administration sufficient amounts of money to cover the premium cost of participating reservists.

The Department of Defense has been cooperative and certainly most helpful in resolving this matter. Each branch of the uniformed services conducted an audit to determine the amount of the unfunded liabilities of Servicemen's Group Life premiums due from the reserve members.

For fiscal years 1974–80, the liability has been determined. This amount is to be transmitted shortly. We are most appreciative of the support of the Department of Defense.

In terms of new legislation, one of the proposals has to do with the assignment of beneficiaries' interest in the proceeds of the Government life insurance in cases involving contested claims. The enactment of this proposal would not have any adverse effect of the National Service Life Insurance trust fund. It would not result in any additional benefit payments nor cost to the Government, and, in view of its prospective application, would involve no additional administrative costs.

Another proposal before the subcommittee seeks to clarify eligibility for Servicemen's Group Life coverage for individuals who volunteer for assignment to the Ready Reserves, but are awaiting initial active duty training. Specifically, the proposal limits eligibility to persons who otherwise meet the requirements for coverage under the current laws, and in addition previously served on active duty or have completed initial active duty training.

During 1980, there were nearly 94,000 nonprior service enlistments in the Reserves, and many of these individuals, waited for up to 6 months to begin their initial active duty training. If we are to construe that a case known as the *Foreman* decision, or the *Foreman* v. *Prudential,* as a precedent, then these individuals would be covered under Servicemen's Group Life.

On the other hand, the courts have also determined that individuals who enlist under a delayed entry program for active duty are not covered under Servicemen's Group Life. Thus, it appears inequitable to extend coverage to delayed entry reservists, while prohibiting coverage to delayed entry active duty enlistees. The proposals before the subcommittee appear to prohibit coverage to delayed entry reservists.

While we believe the law should be clarified concerning eligibility, we defer to the Department of Defense on whether Servicemen's Group Life coverage should be statutorily extended to delayed entry reservists and delayed entry active duty enlistees.

Finally, regarding the proposal to provide $65,000 additional option Servicemen's Group Life coverage for members on active duty, we defer to the Department of Defense regarding the desirability of such optional insurance, since that question can be best evaluated by them.

However, we do have certain comments for consideration. The Servicemen's Group Life Plan is a true group life insurance coverage in its best aspect. That is, one premium per $1,000 of coverage for all ages. Participation, then, needs to be spread over the entire group.

However, with the optional selection, there is the possibility of a situation emerging where the selection of the additional coverage will be principally at the older ages. Obviously the mortality at the older ages accumulates, causing possibly a bunching of older individuals in significant terms having some adverse impact. The probability of this cannot at this point be estimated. We intend, with the Department of Defense, to make some effort to determine participation rates. With that data we'll be in a better position of making a sound recommendation, hoping to stay with the natural character of the program at the moment.

The bill, as presently written, would extend the optional additional coverage to all active duty members on a full-time basis and to Ready Reservists on a part-time basis, that is, while they are participating in active duty for training or inactive duty training.

If the intent of the bill is to insure only those members on active duty, it should be clarified. Additionally, it should be clarified as to whether optional coverage can be converted to Veterans Group Life Insurance.

One final point we would like to make regarding the additional optional coverage is of its potential for increasing cost to the Government. As you know, the Servicemen's Group Life statutes of the United States Code, title 38, section 769, require that the cost of mortality due to the extra hazards on duty in the uniformed services be borne by the appropriations for active duty pay of the uniformed service concerned.

As mentioned earlier, no extra mortality costs have been charged to the program since 1975. At that time, coverage was limited principally to $10,000 and then $15,000 of coverage. There was paid out of appropriated moneys about $507 million for extra hazards.

Regarding the piece of legislation having to do with the escheat of SGLI funds, that proposal would facilitate the administration of SGLI/VGLI cases. We have had one experience, and we're favorably disposed to that legislation.

This concludes my summary of our remarks. We would be most pleased to respond to the questions of this committee, sir.

[The prepared statement of Mr. Melidosian appears on p. 27.]

Mr. HALL. Thank you, Mr. Melidosian. Due to the fact that Mr. Wylie will have to leave shortly, I will just defer to him at this time for any questions he might have.

Mr. WYLIE. Good morning, Mr. Melidosian. It's nice to see you here. Thank you very much, Mr. Chairman. I appreciate that.

In my opening statement I mentioned the fact that the interest rate was increased on the amount which could be borrowed from an insurance policy last year, and you have testified that there has been about a 29-percent decrease in GI insurance loans last year as a result of that interest rate increase on such loans. Is that correct?

Mr. MELIDOSIAN. That is correct, sir. We used 4 months' experience.

Mr. **Wylie**. Did that accomplish the administration's monetary objective, if I may use the phrase?

Mr. **Melidosian**. I'm not sure that anyone, and that would specifically be the Office of Budget and Management, with whom the agency met, ever had specifically a goal to be achieved.

But I would say that a 30-percent decrease was very sizable. However, the Veterans' Administration and the Government were never in a crisis situation. There are roughly 12 percent of our reserves, slightly over $1 billion, out on loan, whereas, in the insurance industry, the figure is closer to 17 percent of the reserves out on loan, and, in some cases, over 23 to 25 percent.

There has been, I would say, a very significant decrease.

Mr. **Wylie**. Were you asked to make projections by the Office of Management and Budget or by other persons in the administration, as to what the loan decrease might be.

Mr. **Melidosian**. I'll have to defer to my staff here. I'm not sure whether they were forecast. I think there was some general discussion on whether it could be decreased 50 percent——

I have been told 50 percent was a figure, yes, sir.

It is possible that the interest could be changed again. There is a formula that we used to set the rate which was tied to the yield on 10-year constant maturities for U.S. Treasury securities. The yield on this economic indicator was 13.47 when we set the 11-percent rate. If that indicator were to reach 15.47, it would trigger a 2-percent increase. We don't look forward to that, incidentally, for several reasons, aside from the accounting aspect.

I was here yesterday during the ADP hearings, and our computer systems are not capable of carrying these extra rates. Some of them are being carried offtape, and it is a costly operation.

Mr. **Wylie**. I might ask the chairman for unanimous consent to ask you to expand, for the record, what those projections for 1982 and 1983 were, if they were made, and what, if any, budget impact there was.

Mr. **Hall**. Without objection, it will be.

[The following material was subsequently submitted for the record:]

June 8, 1982.

Hon. Douglas Applegate,
Chairman, Subcommittee on Compensation, Pension and Insurance,
House of Representatives, Washington, D.C.

Dear Mr. Chairman: Congressman Chalmers P. Wylie posed a question at the recent Insurance Oversight Hearings concerning budgetary estimates of obligations for National Service Life Insurance (NSLI) policy loans.

The interest rate on NSLI policy loans was increased from 5 percent to 11 percent effective July 29, 1981. Congressman Wylie was interestred in how the increase in the policy loan interest rate affected our estimates of obligations for loans. Congressman Wylie also inquired about our actual experience thus far in fiscal year 1982 under the new interest rate.

The Fiscal Year 1982 Budget which was submitted by President Carter contained an estimate of $292,613,000 for NSLI policy loan obligations during fiscal year 1982. The estimate was based on the 5 percent policy loan rate which was in effect at the time the budget was formulated. In March of 1981, it was estimated that if the policy loan interest rate were increased to 11 percent, obligations for loans would be decreased by $96,023,000 to $196,590,000.

The Veterans Administration's final estimates for the President's Budget were made in September 1981. We had no previous experience of a comparable increase in the policy loan interest rate on which to base our projections. We, therefore, employed a mathematical model which is used by the insurance industry to project changes in cash flow associated with given changes in interest rates. Under this model a total of $113,679,000 in NSLI policy loan obligations was projected for fiscal year 1982 at the new 11 percent interest rate. The projection of NSLI policy loan obligations for fiscal year 1983 was $148,108,000. This increase over the projection for fiscal year 1982 was based on the assumption that the policy loan interest rate would be decreased to 9 percent effective January 1, 1983.

The actual amount of loans granted has been somewhat higher than was projected under the model. During the first six months of fiscal year 1982, we granted a total of $74,466,000 in NSLI policy loans. Assuming that loans continue at approximately the same volume, this would result in a fiscal year 1982 total figure of approximately $148,932,000. This figure represents a $143.7 million reduction from the original Fiscal Year 1982 Budget estimate.

We hope that this information will be helpful to Congressman Wylie and to the Subcommittee. If I may be of any further assistance please contact me.

Sincerely yours,

DOROTHY L. STARBUCK,
Chief Benefits Director.

Mr. WYLIE. Are you receiving at the present time many complaints from veterans of World War II about the increase in the cost of National Service Life Insurance?

Mr. MELIDOSIAN. I presume you are speaking specifically of the term policy rates?

Mr. WYLIE. Yes, sir.

Mr. MELIDOSIAN. Here, again, I defer to the staff. I try to see a cross-section of correspondence, and I can say there are large numbers of them. I've got to also say in equity that there are certainly people that have gotten themselves into a situation that they have not thought about the increasing rate. But we certainly have spoken to it, and I believe—that's why I covered some of the statistics—that the group by itself has carefully sorted itself out. The mortality of the term group is a much higher risk than those with permanent plans. Therefore, they are making a good personal financial decision, paying the lowest possible premium at the highest risk, sir.

Mr. WYLIE. Thank you very much.

Mr. HALL. Thank you. We are glad to have Mr. Albert Lee Smith of Alabama, a member of this committee, with us. He has another meeting he must go to.

Mr. Melidosian, there are two or three things I would like to ask of you. You dealt with the assignment of claims, which current law does not permit. And also we touched on what I call the 4-year statute of limitations on a claim.

At the present time, if a veteran dies, is there a limitation period by which a claim will be barred by limitation, if a claim is not filed within 4 years after that veteran's death?

Mr. MELIDOSIAN. The 4 years is applicable to the Servicemen's Group Life and the Veterans Group Life Plan. We have had one case where a beneficiary has not come forward nor have we been able to locate. We don't have a final position, a legal position among ourselves.

Administratively, unless barred by the law, we have no objections to a beneficiary emerging after the 4-year period. At the end of the 4-year period, currently we are principally involved with an accounting transaction of moving the money to a revolving fund.

However, to preclude the escheat and, barring some legitimate claimant from coming forward, the legislation would be helpful from that aspect.

Mr. **Hall**. Heretofore, in all the millions of claims that you have processed, have all of the insurance claims been paid prior to a 4-year period of time after the death of the veteran, except this one that you are talking about?

Mr. **Melidosian**. For Servicemen's Group Life or Veterans Group Life, yes, sir.

Mr. **Hall**. If a claim in the past, or up to this time, has not been made within 4 years, where does that money go?

Mr. **Melidosian**. Well, from an accounting standpoint we put it into a revolving fund to draw down our administrative costs. I can't say at this moment where it ultimately would escheat or the recoverability of the escheated fund.

Would you care to add to that?

Mr. **Wurtz**. The money would escheat to the revolving fund that is set up under title 38, and in the one instance that money has escheated, a $15,000 claim, the money stayed there until the end of the accounting year and was then applied against the administrative expenses.

The law provides that the administrative expenses of running the SGLI program are payable out of these funds in general, and this money was applied to that end.

Mr. **Hall**. In other words, it would not go to the respective State but it would go to the VA?

Mr. **Wurtz**. That is correct. I believe that was the basic intent of the statute as it is written now, that no moneys would escheat to an individual State. This is comparable to the NSLI and USGLI statutes.

Mr. **Hall**. All right. Now, with reference to this assignment business, whereas current law does not permit such an assignment, explain to me, if you would, exactly what the present procedure is and what this assignment business would accomplish?

Mr. **Melidosian**. The National Service Life Insurance contract——.

Mr. **Hall**. Just give me an example of two people making a claim on the same insurance policy.

Mr. **Melidosian**. The assignment would not concern a contract that is in force with a living insured. The assignment will refer to a deceased case where the beneficiary would come forward. It could be something as simple as two wives, the first and the second, both coming to us. Until it is resolved, we have a confused or a contested case.

To speed up the litigation or to arrive at a settlement, it is possible for wife A and B to decide to divide it under an assignment, and that would resolve a contested case.

But I want to be sure that we're not talking about an assignment to a case that is a live, paying case, but only to a case that would be the settlement of an estate, a deceased case.

Mr. **Hall**. Well, are you talking about a case where a veteran made an assignment to his wife, Elizabeth, for the full amount of the policy, and when he died, Mary comes in and says she is the wife or she is entitled to an interest in that policy? What we don't have in the law now is the right of those two women to make a settlement between themselves?

Mr. **Melidosian**. Under an assignment, yes.

Mr. HALL. I'm not sure that I understand what we are talking about here, as far as changing the law.

Mr. KOONS. Under the current law, just the wife may be assigned the proceeds. However, the previous wife, the wife by a previous marriage, could not be assigned the proceeds.

Mr. HALL. Well, why should that be——

Mr. KOONS. It could not be assigned to a previous wife. It can only be assigned to a spouse, a parent, a child, a relative. The change in the law would allow money to be assigned to individuals outside that current permitted class.

Mr. HALL. Well, if the deceased has designated his wife, Mary, as the beneficiary of that policy, and he dies, why should it be the concern of the Veterans' Administration to do anything except pay it to the beneficiary, the designated beneficiary, or, if they get into a squabble between themselves, the designated beneficiary and someone else, why not let them, if they are going to have a lawsuit, go into court, and you just come in with an intervention and tender the money in the court and let the judge decide who gets it, without getting involved in statutory legislation here?

Mr. KOONS. That's what would occur now. What the bill would do would be to avoid having to go to litigation and perhaps save on the legal cost involved, if both parties were willing to make an assignment.

Mr. HALL. Well, there's no reason today why the two supposed wives can not agree among themselves to split it 50–50 or 70–30, is there?

Mr. KOONS. True. They could. They would have no assurance, though, that the individual who we pay the money to holds to that agreement.

Mr. HALL. Well, I practiced 30 years before coming up here. I never saw a case like that in my life. If you had a designated beneficiary on any commercial policy, if that happens and you have two claimants, they would just tender the money into court and let them fight it out and make the determination before a court or a jury who is entitled to the money.

What's wrong with that same procedure being applicable to a service policy? And why should we get involved in it through legislation?

Mr. KOONS. The only reason would be to make it easier to settle the case and avoid some potential cost for individuals. Right now, if an individual contests the claim, the named beneficiary would have to wait, have a delay of the payment, until it is settled in the courts.

Mr. HALL. Well, do you recall, in your experience working with these problems, that we've had many cases where this sort of thing occurred?

Mr. KOONS. We had 5,000 contested claims last year. I'm not quite sure that they all involved, necessarily, two wives.

Mr. HALL. I'm sorry. You said you had——

Mr. KOONS. There were 5,000 contested claims in the program last year, where there was a dispute over who was the beneficiary.

Mr. HALL. Well, what have you done in those cases? What did you do? How did you resolve it?

Mr. **Koons**. The first step is to go to the Board of Veterans' Appeals, go through that process. And after a decision is made, if an individual does not agree with the Board of Veterans' Appeals decision, they then have the option of going to the district court.

Mr. **Melidosian**. I mentioned earlier that there are two members of the General Counsel's Office. I have asked Mr. Lukey to come up, if you would like to hear from the General Counsel's Office.

Mr. **Hall**. That would be fine.

Mr. **Lukey**. Thank you, Mr. Chairman. Currently the law provides that there may be some assignment of proceeds of insurance policies, but only to a limited class of individuals.

What we would intend to do in this legislation is to allow assignment to a greater number. This assignment provision here operates administratively and in a judicial context. In insurance litigation, the parties will go into court and are able to settle simply by stipulating a judgment or a settlement between them.

We believe that the assignment restrictions in title 38 operate to restrict also those judicial settlements, so that a judicial settlement involving a person is an assignment and must be handled in accordance with the assignment restrictions of title 38.

Therefore, assignment cannot be made out of the restricted class. So we are looking to expand that class.

Mr. **Hall**. What are the restrictions now on assignments?

Mr. **Lukey**. For NSLI, for example, assignments of beneficiaries' interest may be made to a widow, widower, child, father, mother, grandfather, grandmother, brother or sister of the insured.

Mr. **Hall**. Who else is there?

Mr. **Lukey**. We often have suits that involve friends, girlfriends, former wives, these people who have what they believe are legitimate claims because, perhaps, they had a beneficiary designation to him at one time during the insured's lifetime.

Perhaps they present a moral kind of claim. For instance, I was the person who took care of the veteran's last years.

What we would hope to do is make a limited extension of the assignment restriction, so that we would have more options, both judicially and administratively, for the settlement of these contested claims.

Mr. **Hall**. Well, you're not saying that they should have an insurable interest in the life of the deceased, though, to be a part of that assignment group, are you?

Mr. **Lukey**. No. We're just saying that in those situations where people, in fact, do contest the decision by the Veterans' Administration that a certain individual is the beneficiary of record, that it is to the advantage of the parties and the VA to have a situation assignment option, a settlement kind of option which is more flexible than the current one.

In fact, now, with the face value of the NSLI and USGLI policies being less significant economically, the value of $10,000 certainly has changed since the 1940's, people are less prone to litigation, and I believe the parties are now in most cases more prone to settlement and would prefer a settlement.

Our effort, then, is to make that settlement option——

Mr. **Hall**. Have you had many cases in your experience where this problem has arisen?

Mr. **Lukey**. It is hard to put numbers, and I'm sure Mr. Melidosian's staff would have a better idea of the number of administrative cases, but with the litigated cases, we think that we see more occasions when people want to settle now, and we see more occasions when the parties would prefer to go to a settlement by stipulation that does not take the assignment restrictions of title 38 into account. In other words, just a pure stipulation of division of the proceeds without an assignment. The willingness seems to be to do that more.

It appears to us that, once the contested claim stage is reached, that people would prefer to reach a settlement and to divide up the proceeds rather than——

Mr. **Hall**. Well, it looks to me like that if, from the start, watering down the beneficiary clause in a policy, you are going to encourage some of these people that you mentioned earlier to come in and make a claim on a policy.

I think that it might be just encouraging litigation or dispute of some type if you get away from the actual designation of a beneficiary in a policy. That's a matter of concern, of course, on everybody's part, to try to make it as simple as possible.

Mr. **Lukey**. Mr. Chairman, I can assure you that's not our intent.

Mr. **Hall**. I know. But I can see many people coming out of the woodwork, claiming an interest because they know they have the right of an assignment, and they think they can make an agreement. Sometimes the courthouse is a pretty good place to have out there to make people not file these frivolous claims.

One other question, Mr. Melidosian. It deals with the date of beginning of the service on coverage, this delayed coverage that you talked about. What is your opinion or what would be your opinion as to the date that coverage should begin on these people?

Mr. **Melidosian**. I guess the ultimate decision would have to be to the Department of Defense, as to the virtues and the merits of it either way. We could administer it either way. There would be probably some more problems with the initial date of application for entering service under a delayed entry program. However, it certainly has substantial amounts of merit to it, Mr. Hall.

Mr. **Hall**. We thank you very much for your very fine presentation, all of you gentlemen.

Next we will hear from General Tice, Deputy Assistant Secretary of Defense.

General Tice?

STATEMENT OF LT. GEN. R. DEAN TICE, DEPUTY ASSISTANT SECRETARY OF DEFENSE

General **Tice**. Mr. Chairman, I am accompanied today by Ms. Audrey J. Reeg, the Director of Pre-trained Individual Manpower from our Department's Reserve Affairs Deputate, and Mr. William R. Amis, the Assistant Director of Compensation of my staff.

It is a pleasure to appear before the committee to present the Department's view on a proposal that will not only benefit members, but will significantly enhance our retention and attraction efforts.

We have long recognized that the SGLI and the VGLI programs have been a material and valuable benefit for members and former members of the Armed Services.

Recent improvements in these insurances, through increasing the maximum coverage, restored vitality to the programs and improved the military compensation and estate systems. The Department appreciates the efforts of this committee and those of our colleagues in the Veterans' Administration who have worked to provide insurance programs that are responsive to the needs of the men and women in uniform and at reasonable cost.

The proposal under consideration today, if enacted, would again improve the Servicemen's Group Life Insurance program by offering additional optional coverage to members in the amount of $65,000. In combination with the present $35,000 coverage, a member could purchase a total of 100,000 dollars' worth of insurance.

Mr. Chairman, such an option would undoubtedly benefit members, particularly those in midcareer and above. Our midcareer members are so important in the maintenance of the readiness of our force. It is this group that also is entering the years where insurance needs are expanding in relation to their age, income level, and financial obligations.

By providing the optional coverage being proposed, the SGLI attains a degree of flexibility that is directly responsive to the insurance needs of our members. This improves the military estate and compensation programs. We have found that when improvements are made, such as this proposed, our ability to retain members during their critical career decision years is enhanced.

Also we expect this proposal to improve our recruiting effort by being able to offer an improved insurance program directly responsive to a member's needs throughout his other career. We believe this would be an important incentive, from a management standpoint, to attract and retain members.

Mr. Chairman, we believe this proposal comes at a most propitious time. Recently, Federal Employees Group Life Insurance program was improved by Public Law 96-427. The proposal under consideration today offers an opportunity to make improvements in the Government-sponsored insurance program available to the military members.

We believe it is important to recognize that the men and women serving in the Armed Forces have similar needs that your proposal would address. We support it and recommend that the committee report favorably on this legislative item.

Mr. Chairman, you are also considering a proposal to clarify who is eligible for SGLI. We concur with that objective. However, at this time in the Department, we are developing initiatives to reduce the pretrained manpower shortfalls, primarily by increasing the size of the individual Ready Reserve and the inactive National Guard.

We believe the expansion of SGLI coverage to all members of the IRR and the ING will assist in that effort. These members of the Ready Reserve, although subject to recall to active duty as replacements and fillers during a national emergency, are currently excluded from SGLI eligibility. We are developing the legislative proposals that will not only improve the insurance program for our guardsmen and reservists, but will clarify the eligibility criteria and provide for the efficient collection of premiums.

We believe this proposal will allay the concerns of the General Accounting Office, as well as those of the Veterans' Administration. When this proposal is completed, we would like the opportunity of soliciting the views of the Veterans' Administration on the effects of such a proposal, to insure that the integrity of the SGLI program is maintained. In view of our work on this proposal, we would respectfully request that the committee defer action on this item.

Mr. Chairman, in your invitation to the Secretary of Defense, you requested a report on our progress in implementing section 402 of Public Law 97-66, which is to insure the timely collection of premiums from reservists for SGLI coverage.

I am pleased to report that we have made significant strides on this matter through the Office of the Assistant Secretary of Defense, Comptroller. You are aware that the Department is committed to fully fund SGLI obligations as required by law. Toward that commitment, we have completed a full accounting of the SGLI premiums due to the Veterans' Administration, since the inception of reservist coverage.

Further, with the cooperation of the Veterans' Administration, we are developing the final regulations required by Public Law 97-66. The Department is presently negotiating with the Veterans' Administration on improved reporting requirements, updated deposit instructions, and more efficient payment reconciliation practices and inquiry procedures.

These actions will correct the conditions cited by the General Accounting Office in the report on SGLI coverage for reservists, in addition to meeting the mandate of the Congress in Public Law 97-66. We in the Department will continue to work closely with the Veterans Administration to insure that the insurance programs remain responsive to member needs and are efficiently administered.

Mr. Chairman, that concludes my opening statement. I appreciate the committee's actions on these subjects and your continuing support for the men and women of the Armed Forces.

[The prepared statement of General Tice appears on p. 76.]

Mr. HALL. Thank you, General. We appreciate very much your concise report. We will look forward to seeing your legislative proposals on clarifying eligibility of guardsmen and reservists and for the collection of premiums from those. I hope we can get that at an early date.

General TICE. We should have it over to the Office of Management and Budget this week, Mr. Chairman.

Mr. HALL. With reference to the increase in this coverage to the additional amount of $65,000, based upon past experience, how do you believe that the services will react to that additional amount that is available to them?

General TICE. I think participation can probably be broken out into two groups. Those who initially enter into the Armed Forces probably will not participate at a very high rate. Those midcareer people, our senior NCO's, chief petty officers and middle grade officers, have the expanding families and are at the age when they need to reevaluate their insurance coverage. I am confident they will participate at a very high rate.

Mr. **Hall**. Do you think that those persons who are initially becoming members might take a lesser amount than the full $65,000?

Mr. **Amis**. Most likely so, Mr. Chairman. Those categories of people are usually 18, 19, on the enlisted side of the house, young people graduating from college on the officer side of the house, usually in their early twenties. At that point, their insurance needs are not as great. I would suspect that in the selection of the optional insurance amount, since it's been recommended in the bill to go in units of $5,000—I know that the VA has suggested that it be in units of $10,000—that if the option is picked up, it would probably be picked up in one of the multiples, as opposed to the full.

As they progress through their career, become married, have children, the flexibility of the option allows them to expand that coverage as their financial obligations are expanded also.

Mr. **Hall**. All right.

General, we thank you for your presentation and the folks that you brought with you. And we look forward to getting the report as soon as possible.

General **Tice**. Sir, we appreciate the opportunity of working closely with your committee.

Mr. **Hall**. Thank you.

General **Tice**. Thank you, Mr. Chairman.

Mr. **Hall**. Next we have Mr. Max Beilke, legislative counsel for the National Association for Uniformed Services.

STATEMENT OF MAX J. BEILKE, LEGISLATIVE COUNSEL, NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

Mr. **Beilke**. Good morning, Mr. Chairman. It is indeed a pleasure to be here this morning and to present the views of my association to this distinguished panel.

My written statement is short, and I will make my oral statement even shorter, in the interest of time.

Mr. Chairman, NAUS has long been a supporter of an increase in the SGLI/VGLI coverage. Last year, in testimony before this very committee, we recommended raising the then $20,000 coverage to $50,000.

At this time we wish to thank this committee and the Congress for their efforts last year, which did increase the coverage to $35,000.

Therefore, this year, NAUS, without reservation, can fully support the proposal for additional optional coverage of $65,000.

Mr. Chairman, this concludes my short statement, and I am prepared to respond to any questions you may have.

Thank you.

[The prepared statement of Mr. Beilke appears on p. 80.]

Mr. **Hall**. Thank you, Mr. Beilke.

Do you have any position on the matter that I mentioned a moment ago, with reference to the additional insurance that these people may be eligible to receive in the $65,000 area?

Mr. **Beilke**. On who will take it, sir?

Mr. **Hall**. Yes.

Mr. Beilke. My calculated guess—I would have to agree with Mr. Amis that the people coming in, the young people, will not go to the maximum. However, as they acquire families, they will increase it. When they get to the midcareer, I think it will go to the maximum.

Those that have not gone to the maximum will by the time they retire, if they stay for a career. You'll probably find a few that will go to the maximum at that time to cover, possibly, house mortgages, or to cover their children's education. Because we're talking basically term insurance.

Mr. Hall. We were in hearings in Memphis last week and we had some testimony there from some Vietnam veterans stating that it is impossible, and they're going to give us the name of those companies, for them to get life insurance. That whenever they made an application, and it became known that they were a Vietnam veteran, that they were automatically rated, and made it impossible for them to get that insurance.

Have you had any experiences along that line?

Mr. Beilke. We have not had any experiences in our association along that line; but, yes, the agent orange scare, I think I can understand why some of these insurance companies would do it, whether it's real or perceived.

Mr. Hall. Well, of course, every person in Vietnam was not subjected to agent orange.

Mr. Beilke. You are so right.

Mr. Hall. But have you had any experience, or have you had anyone to contact you, a legitimate complaint——

Mr. Beilke. No, sir.

Mr. Hall [continuing]. Stating that they've been denied insurance because they were a Vietnam veteran?

Mr. Beilke. No. None of our members have mentioned that to us.

Mr. Hall. Thank you, Mr. Beilke. We appreciate your very fine testimony and statement.

Next Mr. Richard W. Johnson, national legislative director of the Noncommissioned Officers Association.

STATEMENT OF RICHARD W. JOHNSON, JR., NATIONAL LEGISLATIVE DIRECTOR, NONCOMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. Johnson. Thank you, Mr. Chairman. I will try to be as brief as my counterpart from NAUS, but I do ask that my full statement be entered in the record.

The Noncommissioned Officers Association appreciates the time that this committee has devoted to this subject over the past 2 years. Last year's improvement in the SGLI program was deeply appreciated by our membership. We look forward to the committee acting favorably on a proposal to increase SGLI again this year to $65,000 optional coverage limit.

As I have pointed out in my prepared statement, we do not like comparisons between military and civilian Federal service. Such comparisons are inherently unfair, based on the different character of service.

But an entry-level employee in Federal civilian service has the opportunity to purchase up to 65,000 dollars' worth of life insurance from the day he begins employment with the Federal Government. In addition to that, that employee has the opportunity to cover his spouse for up to $5,000 and each child for up to $25,000.

The needs of the military service member in regard to providing for a family in the event of their untimely demise are just as great as for any other Federal worker. And while we realize there are great differences in the program, we believe that the military service members should be treated equally by the Government that he serves.

Therefore, we strongly support an increase to $65,000 in the optional SGLI coverage.

With regard to the other proposal that was circulated for comment, on the date SGLI coverage would become effective for members of the Reserve establishment, NCOA supports covering those people through training periods.

However, it is my understanding from listening to the previous witness this morning that there is some question as to whether people should be covered during a period of delayed enlistment, that time which they sign until that time which they report for training.

NCOA would not support extending coverage to those individuals during that interim period. However, once they have entered training, from the time they get on the bus to go off to a training center, NCOA would support initiation of SGLI coverage.

That concludes my statement. Thank you, Mr. Chairman.

[The prepared statement of Mr. Johnson appears on p. 83.]

Mr. **Hall**. One question, sir. You said in the interim period there should not be coverage?

Mr. **Johnson**. No, based on the conversation that I have heard in the committee earlier this morning, NCOA was somewhat confused when we prepared our statement. It was our understanding that there was a certain class of trainee, an individual who had already entered into active duty, for training purposes only, as a reservist, who was not being covered under the SGLI program. That is wrong.

Anybody who has actually entered into active duty for training and has reported to the training center should be covered by SGLI. But like the delayed enlistment program, there is the reservist out there who has gone down and volunteered his services but has not yet participated at any level.

Once participation begins, coverage should be full time.

Mr. **Hall**. We realize we've got some problems to try to work out on this coverage basis business. I just believe that when a man or woman becomes a member of the armed services, by enlistment or otherwise, even though it may be a delayed thing, I can see a difference maybe there—but I feel that if they get that far that they are subject to being covered by any program that anyone else might be subject to, once they have held up their right hand and sworn allegiance to the country.

Do you differ with that?

Mr. **Johnson**. I often swear allegiance to the country, pledge allegiance to the flag and very many other things, and that doesn't diminish my commitment, neither does it increase the Government's obligation to me.

When you have an individual who has gone down and raised his right hand and said, "Yes, I will serve in the Armed Forces," we deeply appreciate that and provide special pay coverage from that date. We allow him to credit that time toward his enlistment for pay purposes or for purposes of gaining rank, and those kind of things.

We never actually compensate that individual until he has actually begun participation with the service in one manner or another. There can be, I think, a 6-month delay, from the time that young man or young woman raises the hand and says, "I will serve," until the time he actually gets on the bus to go to a training center.

While we appreciate the fact that he has volunteered and made that commitment, we do not see that the Government has an obligation to provide for him financially——.

Mr. HALL. During that period of time.

Mr. JOHNSON [continuing]. During that delay.

Mr. HALL. All right. Mr. Johnson, we thank you for your testimony very much.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. HALL. Our next witness will be Comdr John F. Wanamaker, U.S. Navy, retired, representing the Retired Officers Association. Commander?

STATEMENT OF COMDR. JOHN F. WANAMAKER, U.S. NAVY (RETIRED), DEPUTY DIRECTOR, LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION

Commander Wanamaker. Thank you, Mr. Chairman. We want to thank you and the members of, the committee for providing us this opportunity to present the views of the members of the Retired Officers Association on matters relating to the insurance programs administered by the Veterans' Administration and within the oversight responsibility of the committee.

Over 307,000 retired and active duty personnel who are members of the Retired Officers Association have almost without exception participated in one or more of the various veterans insurance programs. We, therefore, are concerned that the programs meet the insurance needs which the programs were originally intended to achieve.

In testimony before this committee in June 1980, the Veterans Administration witness characterized the USGLI and NSLI programs as maturing programs. Other testimony before this committee in recent years has implied that it has been the intent of the Congress that the Government should get out of the insurance business.

I would respectfully want to remind the Congress that it is still in the insurance business, and the maturing programs, although aging, are still very much alive, maybe ailing, and still need attention. At the same time, I believe the committee should consider new initiatives as conditions change.

The insurance requirements of today's volunteer serviceman are not the same as that designed for the single draftee, soldier, sailor in time of war or during transition back to civilian life. The service member who volunteers in today's peacetime service more than likely is married, has children, and has different insurance requirements.

An adequate insurance program can be a significant management tool to encourage a member to choose a career in military service.

National Service Life Insurance program was originally designed to provide low-cost term insurance protection to service members during World War II and Korea. Today approximately 1 million veterans still participate in the 5-year level term NSLI program. The cost of continued participation by these veterans rises dramatically as they get older.

I am enclosing a graph, attachment A,[1] which depicts the increase in premiums these veterans are expected to pay upon each 5-year interval renewal.

As a result, many of these veterans have been strung along at 5-year intervals, until now they can no longer replace the insurance at any reasonable cost, either commercially or through conversion to a more permanent plan.

Congress created the monster, and I believe that Congress should share some of the responsibility about correcting the problem, whereby over a million veterans realize a reduction in their standard of living because of the ever increasing insurance costs, especially when many are no longer in the work force and may be totally disabled after 65.

In many cases it is the only protection they have for their spouses in the event of their death. This is not something new which just happened. It has been in effect now for over 40 years, but becoming more critical every day.

Congress recognized a similar problem with the older USGLI program and provided a relief through a program whereby those participants at age 65 could exchange their insurance policies for a special endowment policy, paid up to age 96.

Similar legislation is urgently needed for the NSLI program. The windfall annual interest generated by the NSLI program could be available to pay for this program. The problem is becoming more critical as the major NSLI population in the 5-year level term program is rapidly approaching age 65.

I can't urge in any stronger terms that you must act on this matter soon. I would like to divert from my prepared testimony for a moment, Mr. Chairman, and discuss the interest cost of the insurance loans which Mr. Wylie was concerned about earlier.

This came as somewhat of a surprise to some of these members—to apply for a loan and to be told suddenly that the interest rates had increased to 11 percent; and some veterans have expressed their concern to me. I have told them, and I think I've expressed the views of our association, that they still have a good deal. It is still below the normal loan rate available at any other place.

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[1] See p. 93.

But I don't think they were adequately informed far enough in advance for some of these people who may have expected to make loans and all of a sudden find out that the rate had increased.

At the same time, Mr. Chairman, I think that the Veterans' Administration should consider increasing the paid-up additions to the NSLI programs. Those paid-up additions are based on a formula which was in force back 10 years ago, and the additional interest that is generated on those dividends that go to pay up those paid-up additions should buy more insurance. I think that should be looked at very carefully. And I think if they take it away from the loan interest side, they should at least give it back on the side of additional paid-up insurance.

At the request of the committee staff, Mr. Chairman, our association has attempted to determine and identify the insurance requirements that we believe should be provided today's service member. We believe that the current SGLI program should be the basic program upon which a service member can build additional protection for his dependents in the event of his death.

We base this requirement on the voids or gaps that occur in other supporting programs. There are three basic supporting programs, which I will point out the shortfalls of each.

SOCIAL SECURITY

Recent legislation just enacted last year eliminated the $225 lump sum death payment, relatively insignificant. But it also terminates the mother's benefit when a dependent child reaches age 16, rather than formerly at 18.

Students' benefits would be phased out after May 1 of this year, after age 19. The surviving widow loses social security benefits between the time her youngest child reaches age 16 and the time she reaches age 60.

Mr. Chairman, there is an increased void now in this social security program, and insurance is probably one of the supplements that the serviceman will consider to fill this gap. This is one of the requirements I think that SGLI can provide.

Dependency and indemnity compensation program administered by the Veterans Administration, provides a widow of a serviceman who dies on active duty, an annuity in an amount determined by rank/grade until she remarries.

Our association has provided testimony on other occasions, relating to the insufficiency of this compensation in the majority of situations. Replacement income by DIC is less than 20 percent of the regular military compensation in certain grades and ranks.

Widows of those who die on active duty or are retirement-eligible, over 20 years of service, are entitled to the survivor benefits plan. However, this benefit is offset by the social security and dependency indemnity compensation otherwise attributed to military service. It is possible that a dependent spouse of an officer with 18 years of service will be eligible to receive only DIC or 20 percent of the income received prior to the serviceman's death.

This illustrates the need for supplemental life insurance, Mr. Chairman. I want to stress that the current $35,000 SGLI protection presently available is inadequate. I also might point out that if the reductions in entitlement programs now under consideration elsewhere in this Congress, that even the 20 percent income replacement may not be maintained through full CPI adjustments in the future.

My recommendations are, Mr. Chairman, that this committee favorably consider raising current $35,000 maximum coverage of SGLI/VGLI by $65,000; limit the coverage beyond $35,000 to the active duty force only and to the VGLI, 5-year transition coverage; oppose legislation that would reduce the future value of social security, DIC, or survivors benefit plan by limited or partial cost-of-living adjustments; incorporate language in the legislation making participation beyond $35,000 compulsory unless otherwise provided by written notice; and prevent hip-pocket increases and withdrawals with every dangerous mission.

By that, Mr. Chairman, I mean, if a person is sitting on a catapult on a carrier on a black night, and it's raining and thunderstorming, I don't think he should say, "Wait, don't shoot yet. I've got to increase my insurance." There should be some sort of a limit such as every 6 months he could make a determination. He shouldn't be able to do that every time he goes out on a black night.

Finally, I would include language in the report accompanying the bill, requiring that the Department of Defense in coordination with representatives of the Veterans' Administration and the social security agency conduct a study of the income replacement needs of the survivors of military service members and to make recommendations to this committee, not later than March 1, 1983, with proposed legislations to fill these requirements.

I would further suggest that this study consider extending the survivor benefit plan to those career service members with over 4 years of service. This possibility might allow a reduction or elimination of the DIC program and could reduce the need for insurance under SGLI or VGLI.

In summary, we recommend increasing the SGLI/VGLI coverage by $65,000 with certain limitations now and require a detailed study with recommendations to sort out the many interwoven facets of the surviving dependents requirements.

Special thought should include financial protection to allow a serviceman to educate his children in the event of his death in service. Through this combined study effort, I am sure that eventual legislation would take into consideration the hardships endured by the citizen soldier who serves in time of war, as well as the career professional who dedicates the best years of his life in the service of his country.

Thank you, Mr. Chairman. I will be happy to try to answer any questions you may have.

[The prepared statement of Commander Wanamaker appears on p. 85.]

Mr. HALL. Thank you, Commander, for your very concise testimony. We always look forward with interest to what you have to say. I have been listening to you for about 6 years, and it is always most interesting.

We do have a problem on some of these recommendations that you made. We all know that we have budgetary problems that we're all greatly concerned with. I think every member of this committee, subcommittee, and the full committee, are going to make every effort that they can to protect the veterans from all the problems that we face today.

I think the insurance increase that we are all concerned about is one that will, I think, receive favorable consideration by this committee.

Again, I want to thank you for being with us this morning. We are always happy to have you.

Commander **Wanamaker**. As you noticed, I sort of bluelined my testimony. I would request that the whole statement be included in the record.

Mr. **Hall**. Without objection, it will so be entered.

We now have Mr. Gordon Mansfield, associate legislative director of the Paralyzed Veterans of America.

STATEMENT OF GORDON H. MANSFIELD, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. **Mansfield**. Thank you, Mr. Chairman, for this opportunity to present the views of the Paralyzed Veterans of America before your subcommittee. PVA believes that the importance of Veterans' Administration insurance programs to severely disabled veterans and their families has special significance in these times of economic difficulty, fiscal constraint, and rising costs.

I would like my prepared testimony entered in the record.

Mr. **Hall**. Without objection, it will be entered.

Mr. **Mansfield**. Thank you, Mr. Chairman. I would like to address myself specifically to two issues of immediate concern in the VA insurance programs.

The first of these is the veterans mortgage life insurance program, which is made available to those veterans who qualify for special adaptive housing. My prepared testimony outlines the strict criteria for veterans to obtain VMLI eligibility which limits this to a relatively small number.

Consequently, the cost to the Government is not high. Information from the Veterans Administration indicates that, as of February 1982, VMLI program had 5,997 individual veteran accounts and provided $165,500,000-plus insurance coverage.

Mr. Chairman, PVA believes that the limit of $40,000 currently set for VMLI should be increased. We have testified beforehand, before this subcommittee and other subcommittees, about the rising cost of housing. I would like to refer you to page 4 of my prepared testimony, which indicates that from 1971, when this insurance program was first instituted, until 1981, a period of 10 years, the average sales price of single family existing housing went from $28,000 in 1971 to $78,300 in 1981. During that same period, the average cost of adaptive housing went from $35,900 to over $87,000.

When you consider that the veteran has an adaptive housing grant which has been increased from the 1971 amount of $12,500 to the current amount of $32,500, which this committee saw fit to increase just last session, and the low limit of VMLI insurance, we see that the veteran is not able, in all instances, to adequately provide for his widow and children upon his death.

On page 6 of my prepared testimony, we presented a graph which shows that if you take just the average cost of adaptive housing, and then consider the fact that the maximum grant is $32,500, and the maximum amount of insurance is $40,000, you still have a gap of almost $15,000.

Second, I wish to request that the subcommittee consider increasing the amount of coverage provided by RH policies. This insurance is a special type of NSLI insurance, which is made available to veterans with service-connected disabilities.

The present cap on this amount is $10,000. PVA would request that the maximum amount be increased to a higher level. A benchmark for the amount of increase could be the maximum amount available under Servicemen's Group Life Insurance.

Or an alternative to raising the maximum amount provided by the Veterans' Administration would be to allow such eligible veterans the opportunity to purchase additional amounts of coverage above the basic $10,000 presently provided. This alternative would add minimal cost of administration to the VA insurance program, yet allow those veterans concerned the opportunity to provide sufficient funds to allow their spouses and children a reasonably comfortable lifestyle.

PVA believes the current economic situation and the effects of fiscal constraint being enacted by the Federal Government justify this modification. The present level of insurance coverage does not permit the catastrophically disabled veteran the opportunity to provide long-term financial security for his family.

PVA has also testified about the hardships and dislocation the family faces when the veteran dies and the spouse and children must rely on drastically lower DIC payments. PVA continues to receive information from widows who are forced to sell the family home when income is reduced and added expenses, such as property taxes, are increased.

Also, we are currently seeing the results of cuts in Federal programs, such as education and social security, on veterans' widows and children. For example, under the Veterans' Administration pension program, the administration has proposed a redefinition of dependent child which would eliminate the child's eligibility for payments for postsecondary education. Also, changes to the social security disability insurance program made under Public Law 97-101 eliminate similar benefits for dependent children who had previously qualified.

This abrupt change will force many severely disabled veterans or their widows to make alternative financial arrangements for providing for their children's postsecondary education. Unfortunately, further administration proposals will eliminate many college assistance programs. The result may be many more students competing for lesser amounts of available aid. This situation makes it even harder for the families of disabled veterans, who must seek new methods of providing for their children the opportunity for postsecondary education.

An increase in the maximum RH policy would allow the veteran the possibility of accruing sufficient funds available for borrowing or for use to make plans for his children's education.

In conclusion, Mr. Chairman, PVA believes that the VMLI insurance program should be increased to reflect rising costs, and we also believe that the RH policy should be increased.

Thank you very much.

[The prepared statement of Mr. Mansfield appears on p. 94.]

Mr. **Hall**. Thank you, Mr. Mansfield. I'd like to ask you a question I asked one of the previous witnesses, because I am vitally concerned if this is true. You heard me ask a previous witness about the unavailability or the rating of insurance for Vietnam veterans. Have you had an occasion to have any problems like that, or have you had anyone to contact you with a complaint of that nature?

Mr. **Mansfield**. No, sir, PVA has not received any complaints that I know of. And I think part of the reason you'll find, of course, is the disability involved to qualify for the membership automatically excludes you from most commercial coverage.

However, I would like to say that I believe what Mr. Beilke said may have some relevance to the problems we have. As you know, agent orange is just one of the problems the Vietnam veterans are facing, and if the underwriters are looking at problems such as this, it is going to give them, I'm sure, pause to consider.

Mr. **Hall**. Now we have with us Mr. Wayne Dowdy, a member of this committee from Mississippi. And at this time I would ask Mr. Dowdy if he has any comments.

Mr. **Dowdy**. Mr. Chairman, I have nothing other than to thank Mr. Mansfield for his statement, which I am reviewing, and I thank him for it.

Mr. **Hall**. We'd like to thank all of those who have been present here today for your very cogent and competent testimony. We will take these matters under consideration. We realize we have problems. We have budgetary problems. But we will make every effort to try to protect the veteran in all of these areas, and certainly the insurance program will be given due consideration.

At this time the meeting stands adjourned.

[Whereupon, at 10:25 a.m., the subcommittee was adjourned.]

APPENDIX

STATEMENT OF S.W. MELIDOSIAN
DIRECTOR, VETERANS' ADMINISTRATION CENTER
PHILADELPHIA, PENNSYLVANIA
BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION, AND INSURANCE
HOUSE COMMITTEE ON VETERANS' AFFAIRS

March 25, 1982

Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to address the Subcommittee to review the status of the various United States Government Life Insurance (USGLI) and National Service Life Insurance (NSLI) programs which we administer; to review the growth and development of the Servicemen's Group Life Insurance (SGLI), Veterans' Group Life Insurance (VGLI) and Veterans Mortgage Life Insurance (VMLI) programs which we supervise, and to review the Veterans Administration's position on legislative proposals to be considered by the Subcommittee.

These Veterans Administration administered and supervised insurance programs provide approximately $151 billion in insurance protection to over 7.7 million veterans and servicepersons covered under either an individual plan of insurance or a group policy.

Each program was initiated in response to a need to afford financial security through low cost insurance protection to veterans and members of the uniformed services of the United States Government. The Government life insurance programs have been unique in that each was developed with the cooperation and advice of the commercial life insurance industry which was unable to underwrite the risks associated with military service at standard rates. Consequently, the options and contractual agreements contained in the NSLI and USGLI policies issued between 1919 and 1957 closely parallel the standard policies issued by commercial companies during the same period. In 1965 when Congress again recognized the need to provide a program of insurance to the members of the military services, the Veterans Administration in concert with several commercial insurers developed a group protection plan which includes an automatic coverage feature. This same concept was later extended to recently separated veterans and retired reservists.

The impact these programs have on the economy can be gauged to some extent by the value of the disbursements made to policyholders and beneficiaries each year. The total death benefits authorized for all programs combined in 1981 amounted to $563.8 million. An additional $619.7 million was authorized in dividends and another $140.9 million was paid to veterans whose policies matured or were surrendered. The annual dividends for 1982 will amount to an all time high of $664.6 million.

In administering and supervising these programs, our primary objective is to ensure that the programs are administered so as to maximize the financial security provided by each program of insurance. This is and will be an especially challenging task in the NSLI and USGLI programs where the face value of the policy has diminished drastically in terms of the current dollar value compared to the purchasing power of the dollar when the policy was first issued.

I would now like to turn to the individual insurance programs and begin with United States Government Life Insurance (USGLI). This program can best be described as a matured program since it is closed to new issue and 93 percent of the policyholders are over age 60. The average attained age of the policyholders in this program in 1981 was 77.5 years.

While USGLI is frequently referred to as World War I insurance, this is somewhat of a misnomer since we estimate that only 56 percent are old enough to have served in World War I, the balance served during the post-war period up to October 8, 1940, when NSLI went into effect. At the end of calendar year 1981 we had 89,551 USGLI policies in force. The average amount of each policy was $4,030. Exhibit A provides a summary of the in-force USGLI policy activity during 1981, as well as the distribution of plans and amount of insurance held by policyholders at the end of the calendar year.

Unlike NSLI, there are very few term policyholders in the USGLI program. At the end of CY 81 there were only 464 term policies in force. The dividends returned to each term policyholder average approximately 65 percent of their annual premium payments. For all but approximately 156 permanent plan policyholders, the program is a source of net income since their dividends exceed their annual premium payment. For many of these policyholders, the annual dividends represent an annual tax free return in excess of 10 percent on the reserves or cash values which they have built up over the years. In 1981, we collected $3.9 million in premiums, while we authorized $25.4 million in dividends. The trust fund from which USGLI claims are paid is financially sound as indicated on the Summary of Operations provided in Exhibit B.

The program is rapidly winding down. During 1981, 7,148 policies or 7.3 percent of the policies in force at the beginning of the year matured through the death of the policyholder.

Within the program there are eight plans of insurance available: Five-Year Level Premium Term, Ordinary Life, Twenty-Payment Life, Thirty-Payment Life, Twenty-Year Endowment, Thirty-Year Endowment, Endowment at Age 62 and a Special Endowment at Age 96. The latter plan was designed to provide some measure of relief to USGLI five-year term policyholders, age 65 and over, who found it increasingly difficult to meet the substantial premium increases on their policies every five years. This is a regular endowment plan maturing at age 96 with a level premium for the entire premium paying period. Premium rates were kept as low as possible. This plan became available in 1962. As of December 31, 1981, there were 1,760 Special Endowment at Age 96 policies in effect.

I would now like to briefly discuss the National Service Life Insurance (NSLI) program. Enrollment in the NSLI program peaked in 1944, when nearly 16 million policies were in force with a face value exceeding $121 billion. As of December 31, 1981, 4,329,081 policies remained in force with a face value of over $31 billion.

Each policyholder is permitted a maximum of $10,000 coverage. There is, however, a provision that permits dividends to be used to purchase additional paid-up insurance in excess of the $10,000 limit. There is no limit on the amount of additional paid-up insurance that may be purchased.

There are four distinct NSLI programs. In addition to the parent NSLI program which was authorized by the NSLI Act of 1940, the program was expanded in 1951 to include the Veterans Special Life Insurance and Service-Disabled Veterans Insurance. A fourth program, Veterans' Reopened Insurance was added in 1965.

Of the four programs, NSLI, which is commonly referred to as "V" insurance, is by far our largest program. Of the over 22 million policies which have been issued since the program's onset in 1940, approximately 3.5 million remain in force and provide approximately $23.9 billion in insurance protection. In April 1951, this program was closed to new issues and only reinstatements now add to the in-force totals. The average age of our "V" policyholders is 59.1.

With the exception of administrative expenses and claim loses directly traceable to the extra occupational hazard of service in the Armed Forces, the NSLI program is self-supporting. All NSLI policies contain a waiver of premium provision at no extra cost to the insured. For an additional premium, an optional Total Disability Income Provision rider may also be attached to the policy.

All NSLI policies are participating, with exception of a very small number (3,697) of policies that are prefixed with the letter "H". These "H" policies were issued between August 1, 1946 and December 31, 1949 to veterans who were eligible for NSLI, but could not meet the health requirements because of disabilities resulting from or aggravated by active service. The following is a statistical breakdown of NSLI policies prefixed with the letter "V" as of December 31, 1981:

No. of Five-Year Term Policies in force	1,100,167
No. of Permanent Plan Policies in force	2,350,656
Average Amount Per Policy	$6,462
Estimated Average Attained Age	59.1 years
Average Annual Death Rate	15.0 per 1,000

Although term premiums become very high as the insurance is renewed at the older ages, we are continuing to experience a high renewal rate for our "V" term policyholders. Of those policyholders who reached renewal age 65 in 1980, 78 percent chose to renew their term coverage. At age 75, 71 percent renewed and at age 85, 63 percent renewed their term coverage. The premium cost is, of course, in large part offset by dividends. Many of our term policyholders are utilizing their dividends to purchase paid-up additions. As of December 31, 1981, over 129,000 policyholders purchased nearly $208 million in paid-up coverage. Additionally, there is a choice of three tracks for our term policyholders to follow. They can: 1) retain term coverage during a period of need, then drop coverage; 2) convert to a Modified Life at Ages 65 or 70 plan; or 3) convert to an Ordinary Life policy.

The second largest NSLI program is the Veterans Special Life Insurance (VSLI) program. This program was made available, without medical examination, to veterans separated from service on or after April 25, 1951, and before January 1, 1957. These policies are prefixed with the letters "RS" and "W". Application for this insurance had to be made within 120 days after the veteran was separated from the service. Approximately 800,000 VSLI policies were issued, of which 520,140 remain in force, representing $4.6 billion of insurance.

Originally, this insurance was issued only on a Five-Year Unlimited Renewable Term basis. These plans are prefixed with the letters "RS". Through legislation enacted in 1958, however, it became possible for these policies to be converted to any of the permanent plans or to be exchanged to a special, low cost, Five-Year Limited Convertable Term policy, not renewable after age 50. If this policy is not converted before the end of the term period which expires on or after the insured's 50th birthday, the insurance protection ceases. As part of our consumer program, we advised every policyholder in October 1977 that the policy was not renewable after age 50 and we reminded them that they may convert to a permanent plan if they so desired. Approximately 77 percent of these policies are currently in their final renewal period and will expire if not converted prior to the end of the renewal period.

This program was originally established by law on a nonparticipating basis, with the Government underwriting the entire program. The Insurance Act of 1974, however, made this insurance participating with the first dividends being paid in 1975. Like the NSLI program, the VSLI program is virtually self-supporting and includes the disability premium waiver provision at no additional cost. The optional Total Disability Income Provision is also available.

The following is a statistical breakdown of the VSLI program as of December 31, 1981:

No. of Five-Year Policies in force	284,626
No. of Permanent Plan Policies in force	235,514
Average Amount per policy	$8,697
Estimated Average Attained Age	49.5 years
Average Annual Death Rate	4.5 per 1,000

In 1964, Congress enacted legislation which provided for a limited reopening of NSLI resulting in the Veterans' Reopened Insurance (VRI) program. This unusual program is commonly referred to as "J", "JR" and "JS". It was issued to certain Korean and World War II veterans during the period from May 1, 1965 to May 2, 1966.

The premium rate for this insurance depends on the nature and severity of the veteran's disability. "J" and "JR" policies were issued to veterans with varying degrees of service-connected disabilities. The "JS" policies were issued to veterans with nonservice-connected disabilities, which were so severe as to prevent them from purchasing insurance through a commercial insurance company.

Originally, the insurance was nonparticipating and unlike the other NSLI programs, the administrative costs of the program are borne by the policyholder. Because of favorable claim rates and rising interest levels, premiums were reduced for both the "J" and "JR" policyholders. Moreover, in October 1977, all "JS" policies were declared fully paid-up. In November 1979, authority was granted to make each of these subprograms participating. The legislation which made this insurance available for the one-year reopened period precluded the issuance of any term insurance. A summary of the policy activity from the Veterans' Reopened Insurance program and a distribution of policies by plan are provided in Exhibit C.

The following is a statistical breakdown of the VRI program as of December 31, 1981:

No. of Policies in force	163,334
Average Amount per policy	$6,861
Estimated Average Attained Age	58.8 years
Average Annual Death Rate	13.8 per 1,000

The only NSLI program under which policies are presently being issued is Service-Disabled Veterans Insurance (S-DVI). These policies are prefixed with the letters "RH". This insurance is available to veterans separated from service after April 25, 1951, who are suffering from a service-connected disability but who are otherwise insurable. The insurance is issued to these veterans regardless of the severity of the service-connected disability.

Generally, S-DVI must be applied for within one year from the date a veteran receives his or her notice of a disability rating by the Veterans Administration. Although information on this program is periodically released by our Information Services, eligible veterans are also sent two notifications of their possible entitlement to S-DVI. We are currently issuing approximately 8,300 policies each year. A summary of policy activity and a financial statement is provided in Exhibits D and E.

This program insures medically substandard lives at standard rates of premium. Hence, the program is not self-supporting and does not participate in dividends. The excess cost of claims for this program is covered by the Veterans Insurance and Indemnities (VI and I) appropriation. The cost to the Government for each new policy issued is approximately $3,720 based on a cost of $400 per $1,000 of coverage. Over the past few years, the Government has contributed about $5 million annually for this program and to date, over $82 million has been appropriated. If no further policies were issued, future liability for policies in-force is approximately $560 million.

This insurance may be issued for all plans available to NSLI (V) policyholders including the Five-Year Unlimited Renewable Term plan. The Endowment plans, however, are not available to veterans who are totally disabled at the time of application for insurance. The waiver of premiums provision is included in all plans but the Total Disability Income Provision rider is not available.

The following is a statistical breakdown of the S-DVI program as of December 31, 1981:

No. of Five-Year Term Policies in force	87,893
No. of Permanent Plan Policies in force	103,194
Average Amount Per Policy	$9,059
Estimated Average Attained Age	41.0 years
Average Annual Death Rate	10.8 per 1,000

All four NSLI programs provide that a loan may be granted on any policy issued on a permanent plan that has been in force for at least one year. The policy must be on a premium paying basis or in force as paid-up insurance. A term insurance policyholder may take out a loan against any paid-up additional insurance that has been purchased by dividends. There is no waiting period before this type of loan may be made. In both cases, the loan value is 94% of the accrued cash value of the policy and/or paid-up additions.

NSLI policy loan interest rates were last increased on July 29, 1981 from 5 percent to 11 percent. The 5 percent interest was a fraction of the interest charged on secured loans in private money markets. This low rate of interest operated to the detriment of those NSLI policyholders who did not borrow on their policies. Monies taken from the NSLI trust fund are not available for investment. Since the last increase in the loan interest rate in 1971, investments made for the insurance trust fund have yielded increasingly higher earnings. Any surplus earnings are returned to the policyholders in the form of annual dividends. In view of the Administrator's responsibility to manage the insurance trust funds in the best interest of all policyholders, both borrowers and non-borrowers alike, the interest rate was raised so that earnings on both loans and other investments would be compatible.

Future adjustments to the NSLI policy loan rate will be made as deemed necessary to maintain the rate slightly below private money market interest rates. We anticipate that consideration of the need for future adjustments to the loan rate will be triggered by the use of an appropriate economic indicator. For example, the increase to 11 percent was established at the nearest whole number 2 percent below the June 1981 interest rate of 13.47 percent on United States Treasury Security Yields (Constant Maturities, 10 years). We contemplate that consideration of future adjustments to the NSLI interest rate will be triggered by a 2 percent change in the Treasury Security Yields.

With the increase in the loan rate, there has been a telling decrease in loan activity. From September 1981 through January 1982, there has been over a 29 percent decrease in loans processed over the same period in 1980. This has resulted in nearly a $17.6 million decrease in loan outlays (Exhibit F).

I would now like to touch upon our plan to notify policyholders of the provision of the Veterans' Disability Compensation, Housing, and Memorial Benefits Amendments of 1981, Pub. L. No. 97-66, § 403, 95 Stat. 1031, dealing with payment of insurance proceeds in a lump sum. The provision permits a lump sum payment of NSLI and USGLI when no settlement option has been selected by the insured. We estimate that in 4.3 percent of all death claims settlement ceses, the insured did not select an optional settlement. In terms of the entire NSLI and USGLI insured population, 4.3 percent would represent approximately 177,000 of our policyholders and approximately 196,000 policies.

We are in the process of a test mailing to 1,000 policyholders who could possibly be affected by this provision. This test will allow us to assess work loads and costs. We are including a Beneficiary and Optional Settlement Form (VA Form 29-336) so they may update their beneficiary designations. In 1967, VA Form 29-336 was preprinted with a lump sum option. Therefore, any policyholder who completed a beneficiary change since 1967 has selected an optional settlement and hence, would not be affected by the new law. We estimate that 2.1 million policyholders have not updated their beneficiary designations since 1967.

I would now like to discuss the insurance programs which the Veterans Administration supervises, that is, Servicemen's Group Life Insurance (SGLI), Veterans' Group Life Insurance (VGLI) and Veterans Mortgage Life Insurance (VMLI).

Unlike the maturing NSLI and USGLI programs, the supervised SGLI and VGLI programs present a different type of challenge as we attempt to develop and tailor the programs to meet the current needs of our uniformed services personnel and recently separated veterans.

The SGLI program and the VGLI program are both in sound financial condition and are operating on a self-supporting basis. These programs combined provide 119 billion dollars in full-time insurance protection to nearly 3.7 million members of the uniformed services, ready reserves, retired reserves and veterans.

SGLI was first made available to members on active duty in the uniformed services of the Army, Navy, Air Force, Marine Corps, Coast Guard, Commissioned Corps of the United States Public Health Service, and the Environmental Science Services

Administration, now known as the National Oceanic and Atmospheric Administration of the United States of America, in 1965. Maximum coverage was originally set at $10,000. The program was established to meet the insurance needs of those individuals serving in the uniformed services during the period we refer to as the Vietnam Era.

One of the important provisions in the original law was the right of the individual to convert to a commercial policy at standard premium rates after his or her separation from active duty. This privilege was primarily designed to protect the insurability of those service-persons who incurred service-connected disabilities during their tour of duty which would have normally rendered them uninsurable at standard rates.

The law also provided each member with 120 days of prepaid coverage after separation when they were readjusting to civilian life and reorganizing their financial affairs. The conversion privilege had to be exercised during the 120-day post-separation period. It is significant to note that the mortality rates during this post-separation period have been twice the in-service mortality rates. The mortality rates for this period are provided in Exhibit G.

In 1970 the law was amended to permit the extension of prepaid coverage up to one year for those members who were totally disabled at the time of separation. Since the program's inception 17 years ago, there have been a number of additional changes in the law which have substantially expanded the eligible field of membership and the amount of coverage available. In 1970 the maximum amount of coverage was increased from $10,000 to $15,000 and part-time coverage was extended to all reservists, to members of the National Guard and to ROTC members while engaged in authorized training duty. In 1972, cadets and midshipmen of the service academies were included for full-time coverage. In 1974 the Veterans' Insurance Act increased maximum coverage to $20,000 for all members, and full-time coverage was extended to members of the ready reserves and retired reservists. Public Law 97-66 increased the maximum coverage from $20,000 to $35,000, effective December 1, 1981.

The automatic increase to $35,000 does not apply to retired reservists with SGLI coverage. These individuals, including those with less than the previous maximum amount of $20,000, will have until December 1, 1982 to apply for additional coverage up to $35,000. All of the 33,312 retired reservists were mailed applications for the increased coverage. As of March 15, 1982, 19,621 or 59 percent, have applied for additional coverage and 95 percent of those applications were for the maximum coverage.

The Veterans Insurance Act of 1974 also established a new program of post-separation insurance known as Veterans Group Life Insurance (VGLI). VGLI is intended to provide a low-cost policy of life insurance during a period of readjustment. The VGLI program is closely patterned after SGLI. VGLI offers low-cost term insurance for up to 5 years during the veterans readjustment transition. As with SGLI, the maximum coverage increased to $35,000. However, the amount of VGLI coverage an individual may obtain still cannot exceed the amount of SGLI he or she had in force. Therefore, the additional coverage is not available to individuals presently insured under VGLI or those separated or released from service prior to December 1, 1981.

Public Law 97-66 also exempts the VGLI program from the provisions of Public Law 96-342. That law denies federal benefits based on military service to individuals who entered service on or after September 8, 1980 and are separated or released, other than because of disability or hardship, with less than 24 months of duty. Approximately 50,000 veterans were originally denied the opportunity to purchase VGLI because of Public Law 96-342. A special mailing to these individuals, with an explanation and an extension of the normal time limitations for filing, is being conducted since the exemption is retroactive.

Following the 5-year period of coverage, the veteran policyholder has the right to convert his or her insurance to a commercial whole life policy with anyone of 363 companies participating in the VGLI program.

To ensure maximum participation in the SGLI program and avoid any unintentional oversights, the program has been administered on a negative enrollment basis for members on active duty and the reserves. Coverage is automatic and must be declined in writing before the insurance is terminated. Currently, 99.5 percent of all active duty personnel and 97.5 percent of ready reservists participate in the program.

At the end of policy year 1981, full-time coverage was provided to 2.3 million active duty members and 905,000 ready reservists. Part-time coverage was also provided to 8,000 reservists who do not meet the annual training requirements for full-time coverage.

Premium payments for retired reservists are paid directly to the Office of Servicemen's Group Life Insurance (OSGLI). To be eligible for SGLI coverage, a retired reservist must have at least 20 years of creditable service and be eligible for assignment to the retired reserves. Coverage for the retired reservist is provided until they receive their first increment of retired pay or reach their 61st birthday, whichever occurs first. Retired reservists also have the option of converting directly to an individual commercial life insurance policy within the 120 day period after their separation. At the end of policy year 1981, full-time coverage was provided to 33,000 retired reservists.

VGLI also requires direct payment to OSGLI. Veterans are notified of their eligibility for VGLI through a mailing generated by the Veterans Assistance Discharge computer system in Austin, Texas. Each service department furnishes the VA Data Processing Center in Austin with copies of Reports of Separation, DD 214, and from these reports mailing lists of recently-separated veterans are prepared. A follow-up package is also sent six months later. The program currently insures 450,511 veterans and provides 8.9 billion dollars in life insurance coverage. While the current participation rate of approximately 33 percent is exceptionally high for what is basically a mail order business, efforts are underway to improve the participation rate.

The original premium rate for SGLI coverage was set at 20 cents per month per $1,000 of coverage. As a result of the favorable mortality experience and increased interest earning on the contingency reserves, the monthly premium rate was reduced to 17 cents per thousand in 1972 and to 15 cents per thousand in 1978. On account of continued, favorable mortality experience and increased contingency reserve earnings, we are considering a further reduction of the premium rate. Part-time coverage is provided at a cost of $3.50 per year for $35,000 coverage. (A summary of premium rates is provided in Exhibit H). The premiums collected have been sufficient to cover all SGLI costs, except those attributable to the extra mortality costs due to the hazards of military service, which by law are paid from the Uniformed Services appropriations based on the mortality experience of their members. No extra mortality costs have been charged to the Uniformed Services since policy year 1975.

For retired reservists, the cost of SGLI coverage per $1,000 is 30 cents for those age 39 and under, 40 cents for ages 40 through 49 and 50 cents for those over 50. To date, the premiums collected from the retired reservists have not been sufficient to cover their mortality and expense costs. To cover the additional costs, internal transfers from the basic SGLI fund have been required. During policy year 1981, nearly $2.6 million was transferred to subsidize the 33,000 retired reservists and cumulatively, over $36 million has been transferred from the basic SGLI fund. By comparison, during policy year 1981, $13 million was transferred from the basic SGLI fund to subsidize over 450,000 VGLI insureds and cumulatively, over $82 million has been transferred.

As the Statement of Annual Accounting for Policy Year 1981 (Exhibit I) indicates, the contingency reserve for the SGLI program as of June 1981 amounted to 192 million dollars. In the first 16 policy years under the SGLI program, over 1.9 billion dollars in claims have been paid to over 135,000 beneficiaries. These claims are payable in either a lump sum or 36 equal monthly installments. Installment payments currently include an 8 percent interest factor.

The VGLI program is inexorably tied to the basic SGLI program, with which it shares adverse mortality and conversion costs. The only costs to the Government for the VGLI program have been in the amounts required to pay for the excess mortality attributable to veterans with service-connected disabilities. Funds for this purpose are contributed from the VA's Compensation and Pension appropriation. The total cumulative contribution through policy year 1981 was 4.8 million dollars. These costs were primarily due to the adverse selections made by those veterans who were eligible to apply for VGLI retroactively when the law was first passed in 1974. This retro group, as we called them, will no longer have an impact on the program, since we have completed a full five-year cycle and their eligibility has expired.

Unlike the NSLI or USGLI programs, in which the Government entered into an insurance contract with each individual, in the SGLI/VGLI program the Administrator of Veterans Affairs is authorized to purchase a group life insurance policy from a commercial company which shares the risks on a formula basis with other insurance companies as reinsurers. This departure from previous insurance programs reduced the amount of Government involvement required to provide insurance protection to uniformed members of the service and veterans.

The program is currently administered by the Prudential Insurance Company of America with 335 companies participating as reinsurers. Prudential, under the VA's supervision, established the OSGLI, located in Newark, New Jersey.

One of the unique features of this group policy is the fact that the VA retains the right to supervise the program and make final determinations in regard to eligibility and coverage. The VA is also responsible for establishing premium rates in consultation with the primary insurer, collecting premiums from the services and forwarding the funds to the primary insurer, and providing forms and pamphlets needed for the program. The VA is not responsible for collecting individual premiums. OSGLI is responsible for insuring the members and for processing and paying benefit claims, and for collecting premiums from retired reservists and individuals insured under VGLI.

Aside from the annual accounting by OSGLI to the VA, the VA also periodically reviews the SGLI/VGLI operation by visits to the OSGLI. Such meetings further ensure that the programs are efficiently run and foster the working relationship between business and Government.

The uniformed services are responsible for notifying individuals of their eligibility and coverage under SGLI, collecting and accounting for premiums, and forwarding collections to the VA. The uniformed services are also responsible for notifying OSGLI about the death of insured members and the status of their premium payments.

As the Subcommittee is aware, the General Accounting Office, on May 1, 1980, issued a report entitled "Problems in Administering the Servicemen's Group Life Insurance Program in the Ready Reserve." One of the findings of that report was that some of the branches of the uniformed services were not forwarding to the VA sufficient amounts of money to cover premium costs for all participating reservists.

The Department of Defense has been cooperative in resolving this matter. Each branch of the uniformed services conducted an audit to determine the amount of unfunded liability for SGLI premiums due from reserve members. From fiscal year 1974 through 1980, it was determined that the liability was approximately $6 million and this amount will be paid shortly.

In addition to the VA's supervision of the SGLI and VGLI programs, the SGLI program is monitored by the Servicemen's Group Life Insurance Advisory Council. The Council's function and membership were delineated in the original law which established the SGLI program. The Council is required to meet at least once a year to review the SGLI operations and provide advice to the Administrator of Veterans Affairs on matters of policy. The Council was formed so as to include representation from each Cabinet-level department, with members in the Uniformed Services eligible for SGLI coverage.

The original Council as established did not include the Department of Transportation, which was added at the time the Coast Guard was transferred from the Department of Treasury to the Department of Transportation. The Secretary of Treasury, however, was designated by law as the Chairman of the Committee and has continued in that capacity. The Department of Defense represents the Armed Forces; the Department of Health and Human Services represents the members of the Public Health Services; the Department of Commerce represents the Commissioned Officers of the National Oceanic and Atmospheric Administration; the Department of Transportation represents the Coast Guard; and the Office of Management and Budget represents the Office of the President. The last meeting of the Advisory Council was held in December 1981.

I will now turn to Veterans Mortgage Life Insurance (VMLI). In 1971, Congress authorized the VA to provide mortgage protection life insurance on a group basis to veterans who receive a housing grant. Housing grants are available to certain veterans whose severe disabilities, primarily paraplegia, require specially adapted housing. This mortgage protection insurance is provided through a group policy which the Administrator has secured from Bankers Life Insurance Company of Nebraska. The program is administered through the Office of Veterans Mortgage Life Insurance. A maximum of $40,000 in mortgage insurance protection is afforded to a veteran who receives a housing grant, provided he resides in a residence which he owns and which in encumbered by a mortgage on which he has liability. The protection is automatic unless the veteran declines in writing or fails to furnish information on which his premium can be based on standard risks. The excess mortality costs are subsidized by the VA compensation appropriation.

If a veteran initially declines insurance, he or she may apply later. If the veteran sells the house and buys another, or refinances the mortgage, he or she may also apply for mortgage insurance protection.

When a death claim is received, the settlement of the proceeds is made to the mortgage holder for the amount of the unpaid mortgage.

There are currently 5,997 active accounts, representing $165.5 million in coverage. Since the inception of the program, 1,800 claims have been paid, representing approximately $32 million.

We maintain an ongoing relationship with OVMLI. The premiums paid by the VA are deposited in a Contingency Reserve Fund maintained by Bankers Life. Whenever this fund falls below a $200,000 balance, the VA contributes from the compensation fund a sufficient amount to maintain a minimum balance between $200,000 and $400,000. No problems have arisen from the contractual relationship between the VA and Bankers Life in implementing the program.

At this time, I would like to comment on the proposed legislation to be considered by the Subcommittee.

One of the proposals is to permit the assignment of a beneficiary's interest in the proceeds of a Government life insurance in cases involving contested claims.

The proposal would amend 38 U.S.C., §§ 718 and 753 to permit NSLI and USGLI proceeds to be assigned, in whole or in part, in any case involving a dispute between two or more persons each of whom is claiming the proceeds. Restrictions of an assignment are incorporated therein and limit an assignment to where the assignee claims the proceeds based upon the following contentions:

a. The insured designated the proposed assignee as the beneficiary;

b. The insured contracted with the assignee to designate such assignee as the beneficiary; or

c. Such assignee was named, during the insured's lifetime, in a judicial order or decree as a person whom the insured was ordered to designate as the beneficiary or to retain as the designated beneficiary.

Historically, the Government Life insurance programs were created by Congress to provide benefits for veterans' dependents, generally as a flexible supplement to the compensation and pension system. The insurance programs originated during times of war, beginning with World War I. In creating these programs, Congress built in certain restrictions which included the prohibition of assignment of the policy by the insured. This prohibition was designed to prevent insureds from transferring ownership of their policies, using them as collateral for debts or otherwise taking an action that would deprive their dependents of the proceeds. Assignments of the proceeds by the beneficiary were, and remain, limited to such persons specifically enumerated by law, such as the widow, children, parents and siblings of the insured. Generally, the permitted class of those eligible for assignment of the proceeds by the beneficiary include such persons who had a family relationship to the insured.

Enactment of the proposal would serve a two-fold purpose: passage would facilitate the administrative settlement by the VA of contested claims, and it would obviate difficulties encountered in the settlement of litigation involving beneficiary disputes.

In the course of administering the insurance programs, certain shortcomings have been recognized with the present statutory scheme. The statutory provisions on assignments contained in 38 U.S.C. §§ 718 and 753 enumerate a class of relatives of the insured to whom the beneficiary may assign an interest in the insurance proceeds. It should be noted that despite these limitations imposed on the beneficiary in disposing of the proceeds through an assignment, because of the Insurance Act of 1946, the insured is not similarly restricted to a particular class in designating a beneficiary.

The present restrictions present no problem in cases where there is no question as to the designated beneficiary, and the beneficiary wishes to assign the proceeds to a close relative of the insured within the permitted class.

In many NSLI and USGLI cases there are contests as to the last designated beneficiary and also where the insured, by a property settlement or separation agreement, either was ordered to designate or retain a claimant as the beneficiary. In the last five years, there have been over 5,000 contested claims. These contests may not necessarily involve members of the class to which an assignment is possible, such as a former spouse with custody of children of the veteran or a close friend. It has previously been the experience of the VA that contested claims to the proceeds may be resolved by an agreement between the claimants as to a division of the proceeds. An assignment from the named beneficiary to the contesting claimant of all or part of the proceeds is an efficient mechanism for effectuating such an agreement and provides full acquittance of liability for the VA. This method of resolution is not available, however, when the potential assignee is not within the classes set forth in sections 718 and 753. Accordingly, claimants in those cases are forced to engage in time-consuming and expensive litigation, abandon their claims or resort to an unsanctioned agreement to divide the proceeds and in which the Agency is not a participant.

The amendments to the statutes, as proposed, would permit assignments to be made in contested claims without regard to the restrictions now imposed. This would permit extrajudicial settlement of these cases with full release of the Government's liability when the parties have reached an amicable agreement regarding the proceeds. Under current law, a former spouse who has been designated as a beneficiary may assign all or part of the proceeds to the surviving spouse, but the reverse is not permitted. The amendments made by this section would permit such assignments.

The legislation would continue the general requirement that the designated contingent beneficiary, if any, join the principal beneficiary in the assignment. This provision is necessary to avoid the administrative difficulty of determining whether the beneficiary-assignor is alive each time payment is made to an assignee. Such joinder would not be required when the proceeds are payable in a lump-sum since the assignor has sole vested interest.

The legislation retains the prohibition of assignment of gratuitous insurance issued under the provisions of 38 U.S.C. § 722(b). This restriction is necessary to prevent the enlargement of the permitted class of beneficiaries (widow or widower, child or children, parent or parents) of such gratuitous insurance.

The enactment of this proposal would not have any adverse effect on the NSLI trust fund. It would not result in any additional benefit cost to the Government and, in view of its prospective application, would involve little or no additional administrative costs.

Another proposal to be considered by the Subcommittee would remove the bar against payment of SGLI and VGLI proceeds in the event the claim is filed more than four years after the insured's death. The proposal would also clarify that such proceeds may not escheat to a State.

When a SGLI or VGLI claim is not filed within four years of the insured's death, present law provides that the proceeds shall escheat to the revolving fund. The legislative history of a comparable provision added in 1962 to the Federal Employees'

Group Life Insurance (FEGLI) program indicates that Congress intended to prevent unclaimed FEGLI proceeds from escheating to the insured's State of domicile, a purpose that is applicable to unclaimed SGLI/VGLI proceeds as well. However, nothing in the legislative history indicates that Congress specifically intended to bar the payment of proceeds to otherwise entitled claimants whose claims are not filed within the four-year period. This bill to delete the language pertaining to escheat, from which a bar to payment of such claims is implied, would permit payment regardless of when the claim is filed, and thus make the SGLI/VGLI programs consistent in this regard with the NSLI and USGLI programs.

Another proposal before the Subcommittee seeks to clarify eligibility for SGLI coverage of individuals who volunteer for assignment to the ready reserves but are awaiting initial active duty training. Specifically, the proposal limits eligibility to persons who otherwise meet the requirements for coverage under current law and, in addition, previously served on active duty or have completed initial active duty for training.

The genesis of this proposal lies in the confusion over whether these individuals are covered under the law.

Title 38 of the United States Code, Section 765(5)(b) provides SGLI coverage to any individual who volunteers for assignment to the ready reserves and is assigned to a unit in which he may be required to perform active duty or active duty for training and each year will be scheduled to perform at least 12 periods of inactive duty training.

The VA had interpreted the "will be scheduled" clause as not merely setting forth prospective requirements, but as expressing the imperative that there be a current obligation to perform the specified inactive duty before full-time coverage attaches.

The United States Court of Appeals, 5th Circuit, however, in the case of Foreman v. Prudential Ins. Co., 657 F.d 717 (5th Cir. 1981), construed the statutory language of "will be scheduled" as being in the future tense and determined that coverage was in effect. The case involved an individual who, with no prior military experience and not yet a high school graduate, volunteered for enlistment in a National Guard unit, which unit was scheduled to perform 12 periods of inactive duty training. Although subject to being required to perform active duty for training, no orders were received to do so. As such, the individual was placed in a category which required no training. While awaiting orders to begin training, the individual died.

During 1980, there were nearly 94,000 non-prior service enlistments in the reserves and many of these individuals may wait for up to six months to begin their initial active duty training. If we are to construe the *Foreman* decision as precedent, then these individuals would be covered under SGLI.

On the other hand, the courts have determined that individuals who enlisted under a delayed entry program for active duty are not covered under SGLI. Thus, it appears inequitable to extend coverage to delayed entry reservists while prohibiting coverage to delayed entry active duty enlistees. *See Nowinski v. Servicemen's Group Life Ins.*, 484 Supp. 1060 (E.D. Pa. 1980).

The proposal before the Subcommittee appears to prohibit coverage to delayed entry reservists. While we believe the law should be clarified concerning eligibility, we defer to the Department of Defense on whether SGLI coverage should be statutorily extended to delayed entry reservists and delayed entry active duty enlistees.

Finally, regarding the proposal to provide up to $65,000 additional optional SGLI coverage for members on active duty, we defer to the Department of Defense regarding the desirability of such optional insurance since that question can best be evaluated by them. We do, however, have certain comments regarding the bill as proposed.

For administrative purposes, we recommend that any lesser amounts of insurance desired be divisible by $10,000, rather than $5,000. This will make administration simpler, but will still allow sufficient flexibility to the insured members of the uniformed services.

The proposal would require those members desiring the additional coverage to provide ". . . proof of good health, and compliance with such other terms and conditions as may be prescribed by the Administrator." We envision this subsection operating substantially in the same manner as the section of the law that currently allows a member who previously declined coverage (or elected a lesser amount) to apply for coverage by submitting an application, through his or her uniformed service, to the OSGLI. There are, of course, administrative costs involved with the processing of such applications. The cost to restore coverage as described above, is approximately $5.00 per request. We assume that the cost for processing requests for optional additional coverage would be similar. Therefore, if, for example, 200,000 members apply for any optional additional coverage, the cost would be approximately $1,000,000.

We must also consider the question of who would take advantage of the additional optional insurance. Usually, the need for greater insurance protection increases with enlarged family responsibilities which often parallels an increase in age. Likewise, the ability to pay for such additional coverage increases with advancement in rank through the uniformed services and this, too, often parallels an increase in age. Therefore, we have a situation where most of the requests for additional coverage could come from relatively older individuals. Since mortality increases with age, this "bunching" of older individuals is significant in terms of its potential impact on the SGLI fund. The probability of higher mortality costs and the increased administrative costs described in the previous paragraph combined to make it unlikely that the increased coverage could be offered at the same rates as the basic SGLI coverage.

The Chairman's letter of March 4, 1982 stated that the optional coverage provided in this proposal would be limited to active duty personnel. The draft bill which was enclosed with the letter, however, would extend the optional coverage to all active duty members on a full-time basis and to ready reservists on a part-time basis; that is, while they are participating in active duty for training or inactive duty training. Additionally, because the language of 38 U.S.C. § 768(b) provides that a member's SGLI is automatically converted to VGLI, a question could arise as to whether the optional coverage can be converted to VGLI. Accordingly, if the intent is to provide the optional coverage to only active duty personnel, this should be clearly set forth in any legislation ultimately enacted.

We would also like to point out that insurance is only one of the VA death benefits available. We also have, for example, Dependency and Indemnity Compensation (DIC) for service-connected death. DIC is a monthly payment to a surviving spouse, child or dependent parent of a servicemember or veteran who died after December 31, 1956, in line of duty, on active duty, or after discharge as the result of a service-incurred or aggravated disability. Since October 1978, DIC is also payable, under certain circumstances, to survivng spouses or children of veterans who die from non-service-connected causes but, at the time of death, had a 100 percent service-connected disability. These DIC payments are based on rank, and payments to a surviving spouse with no children range from $415 per month to $1,138 per month.

One final point we would like to make regarding the additional optional coverage is its potential for increasing costs to the Government. As you know, the SGLI statutes (38 U.S.C. § 769(b)) require that the cost of mortality due to the extra hazard of duty in the uniformed services be borne by the appropriation for active duty pay of the uniformed service concerned. As mentioned earlier; no extra mortality costs have been charged to the uniformed services since 1975; this coincides with the close of the Vietnam conflict. It should be noted however, that when coverage was limited to $10,000 and later extended to $15,000, almost $507 million was paid by the Government to cover mortality costs due to the extra hazard of military of service. In the event of future armed conflict we would again experience such extra hazard costs. With maximum coverage of $100,000 available ($35,000 current maximum and $65,000 proposed optional) there is a significant increase in our exposure and there could be significant costs to the Government, i.e. the uniformed services.

Mr. Chairman, this concludes my prepared remarks. I shall be pleased to answer any questions you may have.

UNITED STATES GOVERNMENT LIFE INSURANCE
EXHIBIT OF INSURANCE IN-FORCE FOR CALENDAR YEAR 1981

	ALL PREMIUM PAYING PLANS EXCEPT FIVE-YEAR TERM		FIVE-YEAR TERM		PAID-UP & EXTENDED		TOTAL	
	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance
IN-FORCE BEGINNING OF YEAR.....	95,397	388,540,527	505	3,271,131	1,624	4,540,562	97,526	396,352,220
RESTORATIONS..................	1	10,000	0	0	XXX	XXX	1	10,000
CONVERSIONS...................	9	57,000	-9	-57,000	XXX	XXX	XXX	XXX
TOTAL BEFORE TERMINATIONS......	95,407	388,607,527	496	3,214,131	1,624	4,540,562	97,527	396,362,220
INSURANCE TERMINATED BY:								
DEATH.........................	6,957	31,173,071	19	151,500	172	460,890	7,148	31,785,461
T & P DISABILITY..............	8	35,000	2	18,000	0	0	10	53,000
MATURITY AS ENDOWMENT.........	82	415,000	XXX	XXX	1	259	83	415,259
SURRENDER FOR CASH............	710	3,015,534	XXX	XXX	16	57,866	726	3,073,400
LAPSE.........................	39	168,077	11	86,174	XXX	XXX	50	254,251
EXPIRY........................	XXX	XXX	XXX	XXX	43	108,192	43	108,192
NET CHGS. TO PD. UP & EXT.....	63	330,000	XXX	XXX	-63	-256,252	XXX	73,748
OTHER NET CHGS. INCL. REDUCT.	-91	-328,330	0	0	7	21,817	-84	-306,513
TOTAL TERMINATIONS............	7,768	34,808,352	32	255,674	176	392,772	7,976	35,456,798
IN-FORCE END OF YEAR..........	87,639	353,799,175	464	2,958,457	1,448	4,147,790	89,551	360,905,422

DISTRIBUTION BY PLAN OF TOTAL IN-FORCE END OF YEAR

	Number	Amount		Number	Amount
5-YEAR TERM......	464	2,958,457	ENDOWMENT AT 62...	17	$ 59,000
ORDINARY LIFE....	26,369	135,673,759	ENDOWMENT AT 96:		
20-PAYMENT LIFE..	52,765	169,461,042	WITH WAIVER.......	547	3,397,228
30-PAYMENT LIFE..	6,628	36,702,646	WITHOUT WAIVER....	1,213	7,844,500
20-YEAR ENDOWMENT	20	95,000	EXTENDED INSURANCE	312	840,872
30-YEAR ENDOWMENT	80	566,000	PAID-UP INSURANCE.	1,136	3,306,918
			TOTAL.............	89,551	360,905,422
INSURANCE IN-FORCE WITH TOTAL DISABILITY INCOME PROVISION..........				1,352	10,282,000
TOTAL DISABILITY INCOME INSURANCE ISSUED DURING YEAR...............				0	$ 0

Prepared by:
Office of Chief Actuary, Insurance Service
Veterans Administration

UNITED STATES GOVERNMENT LIFE INSURANCE FUND (Participating)

SUMMARY OF OPERATIONS
(Accrual Basis)

	INCOME	CALENDAR YEAR 1981	CUMULATIVE TOTALS FROM ORIGIN JANUARY 1919 TO DECEMBER 31, 1981
1.	Life Insurance Premiums	3,869,068	2,062,847,651
2.	TDIP Premiums	18,513	20,259,478
3.	Policy Proceeds Left to be Paid in Installments	1,652,773	781,737,789
4.	Dividends Left on Credit or Deposit	3,612,221	79,835,961
5.	Investment Income	31,021,460	2,174,144,807
6.	U. S. Contributions	23,947	142,375,814
7.	TOTAL (Items 1 to 6)	40,197,982	5,261,201,500
	DISPOSITION OF INCOME		
8.	Death Benefits	31,549,252	1,507,371,276
9.	Matured Endowments	401,397	496,187,020
10.	Surrender Benefits	2,752,341	321,817,074
11.	Disability Benefits:		
	a. Total Permanent Disability	45,735	352,397,457
	b. Premium Waiver	142,417	5,502,251
	c. Total Disability Income	444,668	29,185,435
12.	Payments from Policy Proceeds Left to be Paid in Installments	12,795,882	1,047,535,527
13.	Dividends Withdrawn	5,363,661	78,635,047
14.	Net Deposits for Policy Reserves:		
	a. All Except TDIP	-35,229,051	367,538,798
	b. TDIP	-529,461	3,110,089
15.	Net Increase in Dividend Credit or Deposit Account	-410,596	20,725,678
16.	Liens Written Off and Adjustment in Undelivered Check Account	99,047	672,480
17.	TOTAL (Items 8 to 16)	17,425,292	4,232,678,132
18.	Net Gain from Operations Before Dividends	22,772,690	1,028,523,368
19.	Dividends to Policyholders	23,691,674	1,018,484,362
20.	Gain (+) or Loss (-) After Dividends	-918,984	10,039,006

EXHIBIT C

NATIONAL SERVICE REOPENED LIFE INSURANCE
EXHIBIT OF INSURANCE IN-FORCE (J, JR AND JS) FOR CALENDAR YEAR 1981

	J INSURANCE		JR INSURANCE		JS INSURANCE		TOTAL	
	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance	No. of Policies	Face Amount of Insurance
IN-FORCE BEGINNING OF YEAR	143,755	1,007,280,849	22,556	142,833,305	304	1,467,158	166,615	1,151,581,362
ISSUES	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
RESTORATIONS	1,120	4,058,571	176	607,931	0	0	1,296	4,666,502
NET SPLITS & CONSOLIDATIONS	0	XXX	0	XXX	0	XXX	0	XXX
TOTAL BEFORE TERMINATIONS	144,875	1,011,339,470	22,732	143,441,236	304	1,467,158	167,911	1,156,247,864
INSURANCE TERMINATED BY:								
DEATH	1,960	13,146,635	424	2,491,497	13	58,500	2,397	15,696,632
MATURITY AS ENDOWMENT	1,029	6,450,120	220	1,288,429	3	7,000	1,252	7,745,549
SURRENDER FOR CASH	562	4,117,499	71	488,784	1	5,000	636	4,611,283
LAPSE	108	552,000	20	111,250	XXX	XXX	128	663,250
EXPIRY	178	1,332,882	25	185,776	1	3,000	204	1,521,658
NET CHANGES TO PD UP & EXT.	XXX	160,504	XXX	24,706	XXX	XXX	XXX	185,210
OTHER NET CHGS. I[illegible] REDUCT.	-31	4,626,295	-8	550,500	-1	-3,000	-40	5,173,795
TOTAL TERMINATIONS	3,806	30,385,935	754	5,140,942	17	70,500	4,577	35,597,377
IN-FORCE END OF YEAR	141,069	980,953,535	21,978	138,300,294	287	1,396,658	163,334	1,120,650,487
DIST. OF IN-FORCE BY PLAN:								
MODIFIED LIFE 65	20,004	146,658,990	3,410	22,085,565	XXX	XXX	23,414	168,744,555
MODIFIED LIFE 70	13,788	102,369,587	1,340	8,326,750	XXX	XXX	15,128	110,696,337
ORDINARY LIFE	43,950	309,032,268	5,383	35,913,812	XXX	XXX	49,333	344,946,080
20-PAYMENT LIFE	35,106	225,728,838	5,589	32,879,385	XXX	XXX	40,695	258,608,223
30-PAYMENT LIFE	4,263	31,833,900	1,787	9,960,853	XXX	XXX	6,050	41,794,753
20-YEAR ENDOWMENT	11,484	76,226,356	2,234	14,212,680	XXX	XXX	13,718	90,439,036
ENDOWMENT AT 60	4,272	31,213,788	896	6,233,488	XXX	XXX	5,168	37,447,276
ENDOWMENT AT 65	6,378	45,076,965	1,070	7,261,583	XXX	XXX	7,448	52,338,548
EXTENDED INSURANCE	1,750	12,653,258	221	1,338,480	4	21,000	1,975	14,012,738
PAID-UP INSURANCE	74	159,585	48	87,698	283	1,375,658	405	1,622,941
TOTALS	141,069	980,953,535	21,978	138,300,294	287	1,396,658	163,334	1,120,650,487
TDIP IN-FORCE END OF YEAR	9,473	71,018,231	XXX	XXX	XXX	XXX	9,473	71,018,231
TDIP ISSUED DURING YEAR	6	46,000	XXX	XXX	XXX	XXX	6	46,000

Prepared by:
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SERVICE-DISABLED VETERANS INSURANCE FUND (Nonparticipating)

SUMMARY OF OPERATIONS
(Accrual Basis)

	INCOME	CALENDAR YEAR 1981	CUMULATIVE TOTALS FROM ORIGIN APRIL 1951 TO DECEMBER 31, 1981
1.	Life Insurance Premiums..............	$28,163,551	$331,295,247
2.	Policy Proceeds Left to be Paid in Installments.......................	643,592	25,447,603
3.	Investment Income....................	1,547,449	11,985,848
4.	TOTAL (Items 1 to 3).................	30,354,592	368,728,698
	DISPOSITION OF INCOME		
5.	Death Benefits.......................	18,570,689	276,278,248
6.	Matured Endowments...................	346,406	2,945,601
7.	Surrender Benefits...................	4,033,352	24,447,765
8.	Disability Benefits: Premium Waiver......................	8,666,160	92,057,551
9.	Payments from Policy Proceeds Left to be Paid in Installments............	880,140	22,922,848
10.	Net Deposits for Policy Reserves.....	13,544,056	198,806,840
11.	Liens Written Off and Adjustment in Undelivered Check Account..........	9,308	111,177
12.	TOTAL (Items 5 to 11)................	46,050,111	617,570,030
13.	Net Loss (-) from Operations.........	$-15,695,519	$-248,841,332*

* Cumulative loss to date in the event of liquidation. Of this loss, $82.587 million has been met by Government appropriations. The balance is owed (Liabilities less Assets).

SERVICE-DISABLED VETERANS INSURANCE (Nonparticipating)

EXHIBIT OF INSURANCE IN-FORCE (RH) CALENDAR YEAR 1981

	No. of Policies	Face Amount of Insurance
IN-FORCE BEGINNING OF YEAR................	189,499	$1,715,101,164
NEW ISSUES..............................	8,282	77,151,363
RESTORATIONS............................	56	530,000
TOTAL BEFORE TERMINATIONS	197,837	$1,792,782,527
INSURANCE TERMINATED BY:		
DEATH...................................	2,092	18,603,748
MATURITY AS ENDOWMENT...................	74	341,534
SURRENDER FOR CASH......................	1,566	13,534,525
LAPSE...................................	2,571	24,693,500
EXPIRY..................................	434	3,524,933
NET CHANGES TO PAID-UP & EXTENDED.......	XXX	233,678
OTHER NET CHANGES INCLUDING REDUCTION...	13	753,750
TOTAL TERMINATIONS.......................	6,750	61,685,668
IN-FORCE END OF YEAR.....................	191,087	$1,731,096,859
DISTRIBUTION OF IN-FORCE BY PLAN:		
5-YR. LEVEL PREMIUM TERM...............	87,893	$ 845,267,500
MODIFIED LIFE 65.......................	7,781	66,427,596
MODIFIED LIFE 70.......................	6,459	55,590,250
ORDINARY LIFE..........................	32,083	276,040,950
20-PAYMENT LIFE........................	28,072	248,177,411
30-PAYMENT LIFE........................	12,438	108,591,500
20-YEAR ENDOWMENT	5,671	42,924,000
ENDOWMENT AT 60........................	3,701	30,826,500
ENDOWMENT AT 65........................	2,894	24,914,500
EXTENDED INSURANCE.....................	4,019	32,146,871
PAID-UP INSURANCE......................	76	189,781
TOTAL....................................	191,087	$1,731,096,859

EXHIBIT F

GROSS NEW LOANS

	September 1980	October 1980	November 1980	December 1980	January 1981	Totals
V	$12,549,589	$12,001,795	$11,283,502	$14,443,678	$16,579,260	$66,857,824
W	1,130,738	1,128,703	1,045,339	1,186,998	1,421,021	5,912,799
RH	552,657	547,237	532,838	546,859	564,801	2,744,392
H	13,002	14,352	11,411	12,769	16,204	67,738
K	298,487	300,056	295,938	436,278	455,758	1,786,517
J	781,988	786,038	774,728	825,006	961,589	4,129,349
Totals:	$15,326,463	$14,778,183	$13,943,758	$17,451,591	$19,998,636	$81,498,619

	September 1981	October 1981	November 1981	December 1981	January 1982	Totals
V	$12,267,462	$11,206,361	$11,110,477	$8,499,532	$8,[illegible]9,260	$51,153,092
W	1,232,254	1,145,840	1,171,617	957,068	[illegible]13,949	5,320,728
RH	485,271	521,447	644,313	500,190	395,637	2,546,858
H	12,213	7,409	12,206	6,702	7,010	45,540
K	281,314	386,778	382,499	265,379	201,240	1,517,210
J	778,774	685,542	691,173	593,867	555,869	3,305,225
Totals:	$15,057,290	$13,953,379	$14,012,287	$10,822,741	$10,042,968	$63,888,665

WORKLOADS (TOTAL - ALL FUNDS)

	September	October	November	December	January	Totals
1980-81	5592	5696	5131	6323	7296	30,038
1981-82	5075	5163	4377	3789	2799	21,203
% CHANGE	-9.25	-9.36	-14.69	-40.08	-61.64	-29.41

ANNUAL DEATH RATE PER THOUSAND (TREND)

CALENDAR YEAR	ACTIVE DUTY ONLY*	120-DAY POST-SEPARATION ONLY	ACTIVE DUTY AND POST-SEPARATION
1966	1.49	3.39	1.60
1967	1.52	3.21	1.63
1968	1.68	3.05	1.80
1969	1.64	2.92	1.76
1970	1.57	2.93	1.72
1971	1.56	2.68	1.69
1972	1.51	3.39	1.69
1973	1.43	3.41	1.59
1974	1.30	3.00	1.43
1975	1.33	3.46	1.49
1976	1.17	2.93	1.30
1977	1.21	2.73	1.33
1978	1.20	2.26	1.28
1979	1.16	2.09	1.23
1980	1.15	2.00	1.21
1981	Not Available		

*Excluding Vietnam experience

PREMIUM RATES SUMMARIZED

SGLI COVERAGE:

The following represents the premium rates applicable to insurance made available by PL 93-289.

FULL-TIME COVERAGE - Active Duty Servicemen, Ready Reservists including Army and Air National Guard.

Insurance Amount	Monthly Premium (all ages)
$35,000	$5.25
30,000	4.50
25,000	3.75
20,000	3.00
15,000	2.25
10,000	1.50
5,000	.75

RESERVISTS WITH PART-TIME COVERAGE -

Amount	Annual Premium (all ages)
$35,000	$3.50
30,000	3.00
25,000	2.50
20,000	2.00
15,000	1.50
10,000	1.00
5,000	.50

RETIRED RESERVISTS - who have reached their 61st birthday and who have not received their first increment of retired pay.

	MONTHLY PREMIUM						
Age	$35,000	$30,000	$25,000	$20,000	$15,000	$10,000	$5,000
Through 39	$10.50	$ 9.00	$ 7.50	$ 6.00	$4.50	$3.00	$1.50
40 through 49	14.00	12.00	10.00	8.00	6.00	4.00	2.00
50 and over	17.50	15.00	12.50	10.00	7.50	5.00	2.50

VGLI COVERAGE:

VGLI - Five-Year term policy following 120-day free SGLI coverage.

	MONTHLY PREMIUM						
Age	$35,000	$30,000	$25,000	$20,000	$15,000	$10,000	$5,000
34 and under	$ 5.95	$ 5.10	$4.25	$3.40	$2.55	$1.70	$ .85
35 and over	11.90	10.20	8.50	6.80	5.10	3.40	1.70

SGLI (SERVICEMEN'S GROUP LIFE INSURANCE)
(Active Duty; Ready and Part-Time Reservists; 120-Day Post-Separatees)

STATEMENT OF OPERATIONS
(Accrual Basis)

INCOME	Policy Year 1981	Cumulative From Sept. 29, 1965
SERVICE PERSONNEL PREMIUMS........................	$104,564,823	$1,534,171,938 a
These are incurred service personnel premiums, all of which are remitted to the primary insurer with the exception of $578,696 for the PY and $5,605,548* cumulative.		
EXTRA HAZARD PAYMENTS............................	0	506,822,406
This is the amount required by law for extra hazard		
INTEREST EARNED..................................	24,032,510	112,603,637 b
This is the interest earned on the invested funds, less any interest paid to beneficiaries or credited to the conversion pool fund.		
TOTAL........................	$128,597,333	$2,153,597,981 c
DISPOSITION OF INCOME		
DEATH CLAIMS.....................................	$ 84,346,465	$1,752,227,908
This is the face amount of all death claims incurred, including an estimate for the unreported.		
NET COST OF EXTRA MORTALITY ON CONVERSIONS.......	-3,360,223	36,000,353
This is the amount deposited in the conversion pool for substandard conversions.		
EXPENSES OF ADMINISTRATION.......................	1,094,168	19,475,809
These are the VA's and the primary insurer's expenses and all reinsurers' expenses and risk charges. VA's expenses were $176,324 for the PY and $3,497,460 cumulative.		

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*These amounts are VA expenses. The Retired Reserve portions are $144,265 for the PY and $611,558 cumulative. The VGLI portions are $258,106 and $1,496,529.

STATEMENT OF OPERATIONS--Continued

DISPOSITION OF INCOME--Continued	Policy Year 1981	Cumulative From Sept. 29, 1965
TAXES AND FEES	$ 2,047,687	$ 33,325,998 e
These are premium taxes, licenses and fees payable to States.		
DEPOSIT OR ADJUSTMENT TO POST-SEPARATION INSURANCE SUBFUND	-449,906	1,777,264
This represents the cost of the paid-up insurance or those in the separation period at the end of the PY.		
TRANSFER TO RETIRED RESERVES	2,574,906	36,021,986 f
TRANSFER TO VGLI	13,005,407	82,131,181 g
CONTINGENCY RESERVE	29,338,829	192,637,482 h
This is a balancing figure.		
TOTAL	$128,597,333	$2,153,597,981 c

a Includes increase adjustment of $6,326,248 in June 30, 1980 cumulative.
b Includes decrease adjustment of $1,361,781 in June 30, 1980 cumulative.
c Includes increase adjustment of $4,964,467 in June 30, 1980 cumulative.
d Includes decrease adjustment of $187,201 in June 30, 1980 cumulative.
e Includes increase adjustment of $126,525 in June 30, 1980 cumulative.
f Includes decrease adjustment of $423,691 in June 30, 1980 cumulative.
g Includes decrease adjustment of $123,067 in June 30, 1980 cumulative.
h Includes increase adjustment of $5,571,901 in June 30, 1980 cumulative.

PREPARED STATEMENT OF LT. GEN. R. DEAN TICE, DEPUTY ASSISTANT SECRETARY OF DEFENSE, MILITARY PERSONNEL & FORCE MANAGEMENT

Mr. Chairman and Members of the Committee:

I am Lieutenant General R. Dean Tice, the Deputy Assistant Secretary of Defense for Military Personnel and Force Management. I am accompanied today by Ms. Audrey J. Reeg, Director of Pre-trained Individual Manpower, from our Reserve Affairs Deputate, and Mr. William R. Amis, the Assistant Director of Compensation of my staff.

It is a pleasure to appear before the Committee to present the Department's views on a proposal that will not only benefit members, but will significantly enhance our retention and attraction efforts. We have long recognized that the Servicemen's Group Life Insurance and the Veterans' Group Life Insurance programs have been a material and valuable benefit for members and former members of the armed services. Recent improvements in these insurances, through increasing the maximum coverage, restored vitality to the programs and improved the military compensation and estate systems. The Department appreciates the efforts of this Committee and those of our colleagues within the Veterans' Administration who have worked to provide insurance programs that are responsive to the needs of the men and women in uniform and at reasonable costs.

The proposal under consideration today, if enacted, would again improve the Servicemen's Group Life Insurance program by offering additional optional coverage to members in the amount of $65,000. In combination with the present $35,000 SGLI coverage, a member could purchase a total of $100,000 worth of insurance coverage. Mr. Chairman, such an option would undoubtedly benefit members, particularly those in mid-career and above. You may be aware that it is this category of members that is so important in the maintenance of the force profile. It is this category that also is entering the years where their insurance needs are expanding in relation to their age, income level, and financial obligation. By providing the optional coverage being proposed, the SGLI attains a degree of flexibility that is directly responsive to the insurance needs of members. This improves the military estate and compensation programs. We have found that when improvements are made, such as this, our ability to retain members during their critical career decision years is enhanced. Also, we would expect this proposal to improve our recruiting effort by being able to offer an improved insurance program directly responsive to a member's needs throughout his career. We believe this would be an important incentive from a management standpoint to attract and retain members. Additionally, it would be an important benefit to members by permitting them to better structure their estate plans in relation to their needs.

Mr. Chairman, we believe this proposal comes at a most propitious time. Recently, the Federal Employee's Group Life Insurance Program was improved by Public Law 96-427. The most significant effect of this Act was to provide federal employees new forms of optional insurance. In addition, the basic insurance, formerly called regular insurance, was also increased. By the proposal under consideration today, an opportunity exists to make improvements in the government sponsored insurance program available to the military members. We believe it is important to recognize that the men and women serving in the armed forces have similar needs that this proposal would address. We support this proposal, and recommend that the Committee report favorably on the legislative item.

Mr. Chairman, you are also considering a proposal that was developed with the objective of clarifying who is eligible for SGLI. We concur with that objective. However, we in the Department have been developing initiatives to reduce the pretrained manpower shortfalls, primarily by increasing the size of the Individual Ready Reserve and Inactive National Guard (IRR/ING). We believe the expansion of SGLI coverage to all members of the IRR/ING will assist in that effort. These members of the Ready Reserve, although subject to recall to active duty as replacements and fillers during a national emergency, are currently excluded from SGLI eligibility.

We are developing a legislative proposal that will not only improve the insurance program for our Guardsmen and Reservists but will clarify the eligibility criteria and provide for the efficient collection of premiums. We believe this proposal will allay the concerns of the General Accounting Office as well as those of the Veterans' Administration. When this proposal is completed, we would like the opportunity of soliciting the views of the Veterans' Administration on the effects of such a proposal to insure that the integrity of the SGLI program is maintained. In view of our work on this proposal, we would respectfully request that the Committee defer action on this item.

Mr. Chairman, in your invitation to the Secretary of Defense you requested a report on our progress in implementing section 402 of Public Law 97-66 with regard to the issuance of regulations to ensure the timely collection of premiums from reservists for SGLI coverage. I am pleased to report that we have made significant strides on this matter through the Office of the Assistant Secretary of Defense (Comptroller). You are aware that the Department is committed to fully fund SGLI obligations as required by law. Toward that commitment, we have completed a full accounting of SGLI premiums due the Veterans' Administration since the inception of reservist coverage. Further, with the cooperation of the Veterans' Administration, we are developing the final regulations required by P.L. 97-66. The Department is presently negotiating with the Veterans' Administration on improved reporting requirements, updated deposit instructions, and more efficient payment reconciliation practices and inquiry procedures. These actions will correct the conditions cited by GAO in the report on SGLI coverage for reservists, in addition to meeting the mandate of the Congress in Public Law 97-66. I would like to re-emphasize that we in the Department will continue to work closely with the Veterans' Administration to ensure that the insurance programs remain responsive to member needs and are efficiently administered.

Mr. Chairman, that concludes my statement. I appreciate the Committee's actions on these subjects, and your continuing support for the men and women of the armed forces.

Statement of

Max J. Beilke
Legislative Counsel

The National Association for Uniformed Services

Before the

Subcommittee on Compensation, Pension and Insurance

Committee on Veteran's Affairs

U.S. House of Representatives

March 23, 1982

Proposal -- to increase Servicemen's Group Life Insurance
and Veterans' Group Life Insurance to $65,000.

Mr. Chairman, and members of the subcommittee, I welcome the opportunity to present the views of the National Association for Uniformed Services to this distinguished panel.

The National Association for Uniformed Services (NAUS) is unique in that our membership represents all ranks of career and non-career service personnel and their wives and widows. Our membership includes active, retired, and reserve personnel of all seven uniformed services: Army, Navy, Air Force, Marines, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration. With such a membership, we are able to draw information from a broad base for our legislative activities.

NAUS has long been a proponent of increasing the maximum level of life insurance coverage under the Servicemen's and Veterans' Group Life Insurance (SGLI) (VGLI) programs. As recent as last year, April 8, 1981, John P. Sheffey, Executive Vice President of NAUS testified before this same subcommittee, urging that the then $20,000 maximum coverage be increased to $50,000. Therefore, today, NAUS gives its unqualified support to increasing the maximum coverage to $65,000.

For many of our young service members, SGLI will be the only life insurance coverage they will have. Some private insurance companys do not care to insure military people and those that do will in many cases have military service disclaimer clauses or increased rates. The SGLI program is a program the young service person can trust and are thus not placed in the clutches of some unscrupulous insurance salesmen. Coverage at $65,000 will, in most instances, be sufficient for the young service member and therefore will not need to purchase additional high cost coverage.

An increase to $65,000 will also be welcome by the career service person. In relation to current active duty base pay, $65,000 is four times the annual base pay of an NCO grade E 7 with 12 years of service. For the E 8 with 18 years service, its 3½ times greater. For the 04 with 10 years service, its 2½ and for the 05 with 18 years, its only twice his annual base pay. While some may argue, the ratio of insurance to annual income should be greater, NAUS, at this time, believes the $65,000 is sufficient when viewed in conjunction with other veterans' benefits currently available to widows and surviving children.

The importance of increasing the levels of SGLI to offset inflation erosion cannot be overlooked.

Assuming an annual inflation rate of three percent, the real value of $65,000 is $55,900 in 5 years, $48,000 in 10 years and $41,600 in 15 years. A five percent inflation rate, 5, 10, and 15 years reduces the true value to $50,700, $39,650 and $31,200 respectively. I will not state the factors for a 10 percent annual inflation simply because not only would the value of SGLI be drastically affected, so would the entire economy of this nation. When you apply these inflation factors to the current $35,000 level, it depicts graphically the need for the $65,000 proposal.

Civil Service and postal service employees long have had larger amounts of subsidized insurance available to them than do the military. This $65,000 proposal aligns the military coverage more closely with the coverage available to federal and postal employees.

NAUS appreciates the opportunity to present its views on this matter. It is always a privilege to appear before this august body.

At this time, I will respond to any questions you may have.

PREPARED STATEMENT OF RICHARD W. JOHNSON, JR., NATIONAL LEGISLATIVE DIRECTOR

The Non Commissioned Officers Association of the USA representing more than 250,000 non commissioned and petty officers of the nation's armed forces deeply appreciates this opportunity to comment on proposals to improve the Serviceman's Group Life Insurance (SGLI) program. Since 83 percent of NCOA's membership is on active duty in the armed forces, the association is particularly interested in the proposal to increase the optional SGLI coverage.

The second proposal, circulated to the Association for comment, deals with SGLI eligibility requirements for certain reserve members of the armed forces. In our opinion, this proposal is somewhat faulty and NCOA will recommend some changes.

Mr. Chairman, the committee is to be commended for the consideration it has given to SGLI improvements in the past two years. Last year the committee recognized a need to raise maximum coverage amounts from $20,000 to $35,000 and acted to fill that need. The association deeply appreciates the action.

This year the committee is considering a proposal to provide optional SGLI coverage of up to $65,000 to servicemembers on active duty. NCOA strongly supports this measure and hopes the committee will move swiftly toward its passage.

Federal civilian and postal workers have a minimum subsidized insurance benefit of twice their annual salary plus $2,000 up to age 36. This subsidized insurance benefit diminishes to the equivalent of annual salary at age 45. In addition, federal employees may purchase optional insurance coverage of up to five times their annual salary. A GS-1 currently earns $8,342. For the purposes of computing insurance benefits this is rounded, by law, to $9,000. In this case the employee has a minimum insurance benefit of two times annual salary plus $2,000 or a total of $20,000. In addition the employee may purchase optional insurance of five times his or her annual salary or $45,000. In other words, this entry level civilian worker may purchase up to $65,000 of personal insurance coverage. In addition, he or she may purchase up to $5,000 of coverage for a spouse and $2,500 of coverage for each child.

NCOA realizes that prices vary between the two plans and there are other differences. It all relates to our previous comments on the unfair nature of comparisons.

Our point, however, is that the committee is considering a measure to provide all members of the armed forces an opportunity to purchase the same optional amount of insurance available to the most junior civilian federal worker. As previously stated, NCOA strongly supports the proposed increase and hopes nothing will interfere with its enactment.

PREPARED STATEMENT OF COMDR. JOHN F. WANAMAKER, U.S. NAVY (RETIRED), DEPUTY DIRECTOR, LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION

Mr. Chairman and Members of the Subcommittee:

We want to thank you, the members of this committee for providing us this opportunity to present the views of the members of The Retired Officers Association on matters relating to the insurance programs administered by the Veterans Administration and within the oversight responsibility of this committee.

Over 307,000 retired and active duty personnel who are members of The Retired Officers Association have almost without exception participated in one or more of the various veterans' insurance programs. They therefore are concerned that these programs meet the insurance needs which the programs were originally designed to achieve. I would like to make a general observation of the insurance programs administered by the Veteran's Administration which I feel may be the cause of several of the problems that currently exist. In testimony before this committee in June 1980 the Veterans Administration's witness characterized the USGLI and NSLI programs as "maturing programs." Other testimony before this committee in recent years has implied that it has been the intent of the Congress that the government should "get out of the insurance business."

I would respectfully want to remind the Congress that it's still in the insurance business and the "maturing programs" although aging are very much alive (maybe ailing) and still need attention. At the same time, I believe the committee should consider new initiatives as conditions change. The committees' action last year in increasing the amount of insurance coverage available for todays active duty force is an example of attention paid to an established program in view of today's needs. The increase in the available SGLI/VGLI insurance coverage to $35,000 by active duty service members and Reservists was urgently needed. The members of this committee should be commended for this legislative achievement and the members of this association want to take this opportunity to extend our thanks.

The insurance requirements of today's volunteer servicemen are not the same as that designed for the single draftee soldier/sailor in time of war and during transition back to civilian life. The servicemember who volunteers in today's peacetime service more than likely is married, has children and has different insurance requirements. An adequate insurance program can be a significant management tool to encourage a member to choose a career in military service. We would now like to provide the committee with our views on several insurance programs administered by the Veterans Administration.

National Service Life Insurance (NSLI)

The NSLI program was originally designed to provide low cost term insurance protection to servicemembers during WW II and Korea. Unfortunately, the 5 year level term basic insurance program did not have a limiting age, such as 50,60 or 65. Today approximately 1 million veterans still participate in the 5 year level term NSLI program. The costs of continued participation by these veterans rises dramatically as they get older. The efforts of the Veterans Administration to encourage these veterans to convert to a permanent plan has been extremely disappointing. I am enclosing a graph (attachment A) which depicts the increase in premiums these veterans are expected to pay upon each five year renewal interval. The dilemma has been caused by the original development of the program which failed to provide a terminal age. As a result many of these veterans have been strung along at 5 year intervals until now they can no longer replace the insurance at any reasonable cost either commercially or through conversion to a more permanent plan.

Congress created the monster and I believe the Congress should share some of the responsibility about correcting the problem whereby over a million veterans realize a reduction in their standard of living because of the ever increasing insurance costs, especially when many are no longer in the workforce, maybe totally disabled after age 65. Many are no longer eligible to convert to a modified plan or to waiver premiums for disability occuring after age 65. They are tied to a tiger's tail and they can't let go because in many cases it's the only protection they have for their spouses in the event of their death. This is not something new which just happened, it's been in effect now for almost 40 years but becoming more critical every day. Congress recognized a similiar problem with the older USGLI program and provided relief through a program whereby those participants, at age 65, could exchange their insurance policies for a special endowment policy (age 96). Similar legislation is urgently needed for the NSLI program. The "windfall" annual interest generated by the NSLI program could be available to pay for this program. All participants could also take advantage of this same benefit, upon reaching age 65, should they not convert to a permanent plan. In fact by reducing the future dividends by the amount of "windfall" interest may encourage many to convert at an early age and this really would accomplish the objective by reducing the number of older veterans in the financial plight we have today. The problem is becoming more critical as the major NSLI population in the 5 year level term program is rapidly approaching age 65. The weak excuse that this would cause inequities is no reason to continue to allow these older veterans to suffer. I can't urge you in any stronger terms that you must act on this matter soon.

At the request of the subcommittee staff, our association has attempted to determine and identify the insurance requirements that we believe should be provided for todays servicemember. We believe that the current SGLI program should be the basic program upon which a servicemember can build additional protection for his dependents in the event of his death. We base this requirement on the void or gaps that occur in other supporting programs. There are three basic supporting programs and I will point out the shortfalls in each.

Social Security--Recent legislation eliminated the $225-lump sum death payment and also terminates a mother's benefit when a dependent child attains age 16 (rather than 18). The Student's benefit would be phazed out after 1 May of this year after age 19. A surviving widow would lose Social Security benefits between the time her youngest child reached age 16 and the time she reached age 60.

Dependency and Indemnity Compensation (DIC)--A widow of a serviceman who dies on active duty receives DIC in an amount determined by rank/grade until she remarries. Our association has provided testimony on other occasions relating to the insufficiency of this compensation in the majority of situations. The replacement income by DIC is less than 20 percent of regular military compensation (RMC) in certain grades/ranks.

Survivors Benefit Plan (SBP)--Widows of those who die on active duty and are retirement eligible (over 20 years of service) are entitled to this benefit, however, this benefit is offset by the Social Security and Dependency and Indemnity Compensation otherwise attributed to military service. It's possible that a dependent spouse of an officer with 18 years of service would be eligible to receive only DIC or 20% of the income received prior to the servicemember's death. This illustrates the need for supplmental life insurance. Mr. Chairman, I want to stress that the current $35,000 SGLI protection available is inadequate. I might also point out that if the reductions in entitlement programs now under consideration elsewhere in this congress that even the 20 percent of income replacement may not be maintained through full CPI adjustments in the future.

RECOMMENDATIONS--The members of this association would recommend this committee take the following action:

Favorably consider raising the current $35,000 maximum SGLI/VGLI to $65,000.

Limit the coverage beyond $35,000 to the active duty force only and to the VGLI (5 year transition coverage).

Oppose legislation which would reduce the future value of Social Security, DIC, or Survivors Benefit Plan by limited or partial cost-of-living adjustments.

Incorporate language in the legislation not making participation beyond $35,000 compulsory unless otherwise provided with written notice.

Prevent "hip-pocket" increases and withdrawals with every dangerous mission.

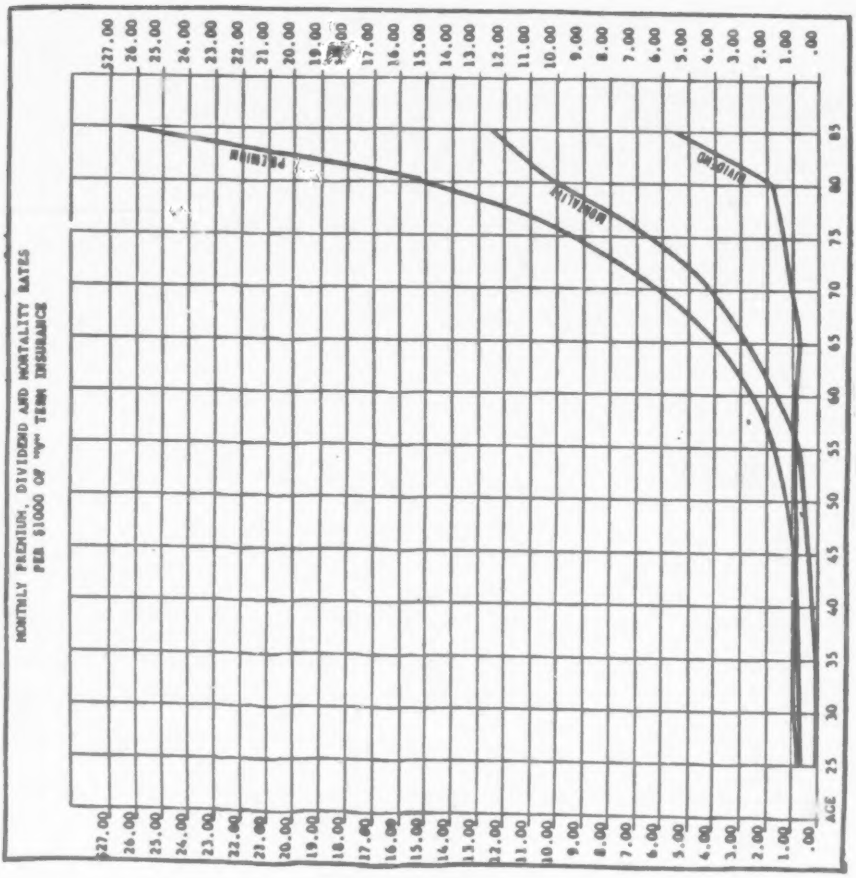
Finally, I would include language in the report accompanying the bill requiring the Department of Defense in coordination with representatives of the Veterans Administration and Social Security Agency to conduct a study of the income replacement needs of the survivors of military servicemembers and to make recommendations to this committee not later than 1 March 1983 with proposed legislation to fill these requirements.

I would further suggest that this study consider extending the Survivor Benefit Plan to those career servicemembers with over 4 years of service. This possibility might allow a reduction or elimination of the DIC program and could reduce the need for insurance under SGLI/VGLI.

In summary, we recommend increasing the SGLI/VGLI coverage to $65,000 with certain limitations now and require a detailed study with recommendations to sort out the many interwoven facets of the surviving dependents requirements. Special thought should include financial protection to allow a servicemember to educate his children in the event of his death in service. Through the outstanding leadership of the chairman of the committee, Mr. Montgomery, joint hearings were recently conducted with the Armed Services Committee. I would hope that this close coordination could continue during the next congress and allow both committees which exercise considerable dual responsibility in this issue to work jointly in arriving at a solution.

Through this combined effort I'm sure that eventual legislation would take into consideration the hardships endured by the citizen soldier who serves in time of war, as well as, the career professional who dedicates the best years of his life in the service to his country.

Thank you Mr. Chairman, I will be happy to answer any questions.



MONTHLY PREMIUM, DIVIDEND AND MORTALITY RATES
PER $1000 OF "W" TERM INSURANCE

PARALYZED
VETERANS
OF
AMERICA
CHARTERED BY THE CONGRESS OF THE UNITED STATES

STATEMENT OF
GORDON H. MANSFIELD, ASSOCIATE LEGISLATIVE DIRECTOR
BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
VA INSURANCE PROGRAMS

March 25, 1982

Mr. Chairman and Members of the Subcommittee, on behalf of the members of Paralyzed Veterans of America, I wish to thank you for this opportunity to present the views and concerns of PVA regarding Veterans Administration insurance programs. The insurance programs administered by the Veterans Administration have long served as a necessary resource for many veterans (particularly severely disabled veterans) who otherwise would not have access to commercial insurance providers. The maximum levels for some of these insurance programs have not been increased in recent years and the effects of inflation have reduced the efficacy of them. For veterans to be well-served by these programs they must reflect the prevailing economic conditions of the nation and need to be increased to levels comparable to those offered through commercial insurance providers. PVA wishes to thank the Subcommittee for holding this oversight hearing to review the adequacy of these programs.

4350 East-West Highway, Suite 900, Washington, D.C. 20014 (301) 652-2135

The importance of VA insurance programs to severely disabled veterans and their families is of special significance in these times of economic difficulties, fiscal constraint, and rising costs. Of immediate special concern to PVA is the Veterans Mortgage Life Insurance Program (VMLI).

This type of insurance became effective on August 11, 1971 through the provision of Public Law 92-95. A program of group type mortgage life insurance for those veterans who have been granted or will be granted a specially adapted housing grant under authority of Chapter 21, Section 802, Title 38 United States Code was established. This program provides insurance for severely disabled veterans who would not otherwise be able to obtain coverage because of their medical conditions. The original maximum coverage of $30,000 was increased to $40,000 through provision of Public Law 94-433 effective October 1, 1976. Protection is automatic for the amount of the mortgage, up to the maximum of $40,000, unless eligible veterans decline in writing or fail to respond to a final request for information on which their premium can be based. Premiums are automatically deducted from VA benefit payments or paid direct, if the veteran does not receive compensation. The policy remains in effect until the mortgage up to the maximum amount of insurance, has been liquidated, or the home is sold; or until the veteran reaches 70 years of age, or dies. If a mortgage is disposed of through liquidation or sale of the property, any unused portion of the life insurance coverage may be used on the mortgage of a second or subsequent home.

VMLI is made available to those veterans who qualify under Section 801, Title 38

United States Code, which provides eligibility for those veterans entitled to compensation for permanent and total service-connected disability -

1) due to the loss, or loss of use, of both lower extremities, such as to preclude locomotion without the aid of braces, crutches, canes, or a wheelchair, or

2) which includes (A) blindness in both eyes, having only light perception, plus (B) loss or loss of use of one lower extremity, or

3) due to the loss or loss of use of one lower extremity together with (A) residuals of organic disease or injury, or (B) the loss or loss of use of one upper extremity, which so affect the functions of balance or propulsion as to preclude locomotion without the aid of braces, crutches, canes, or a wheelchair.

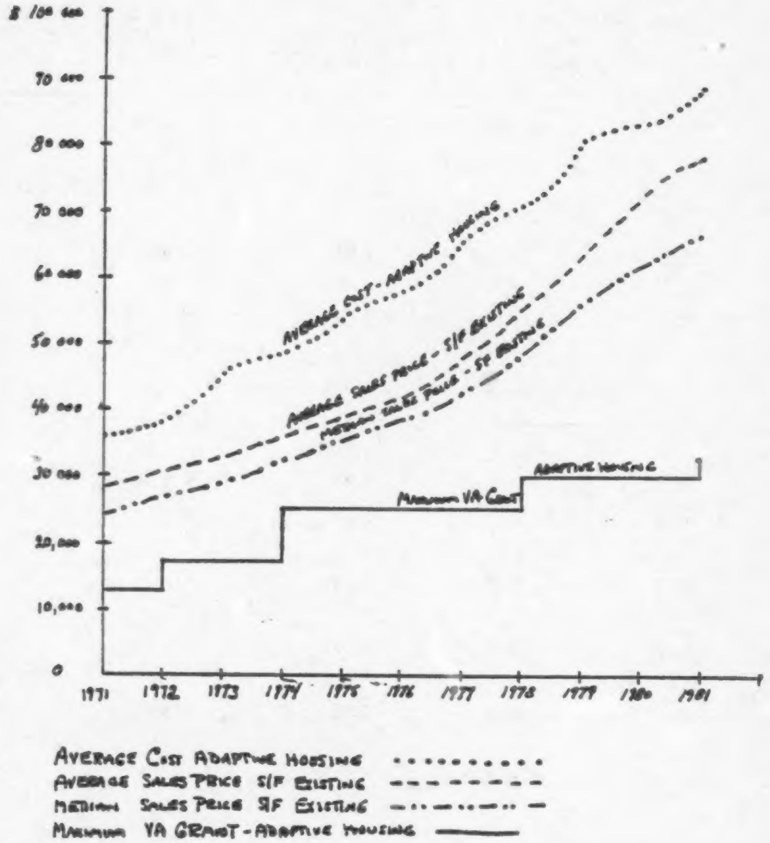
These strict criteria for veterans to obtain VMLI limit the eligibility to a relatively small number. Consequently, the cost to the government is not high. Information from the VA indicates that as of February 1982 the VMLI program had 5,997 individual veterans accounts, provided $165,588,511.00 of coverage, and collected $109,827.33 in premiums.

Mr. Chairman, PVA believes the cost factors involved in new home construction or purchase of existing housing are well known to all Members of the Subcommittee. In fact, you saw fit, through the efforts of the full Committee to increase the basic grant for adaptive housing from $30,000 to $32,500 just last Session through Public Law 97-66. PVA wishes to thank you for that action. And, we now would like to present some data to support our request for an increase in the maximum amount of coverage available through VMLI. PVA has gathered data on housing sales prices, mortgage rates, and cost of adaptive housing. The data for the period 1971, when VMLI was first available, to 1981 are as follows:

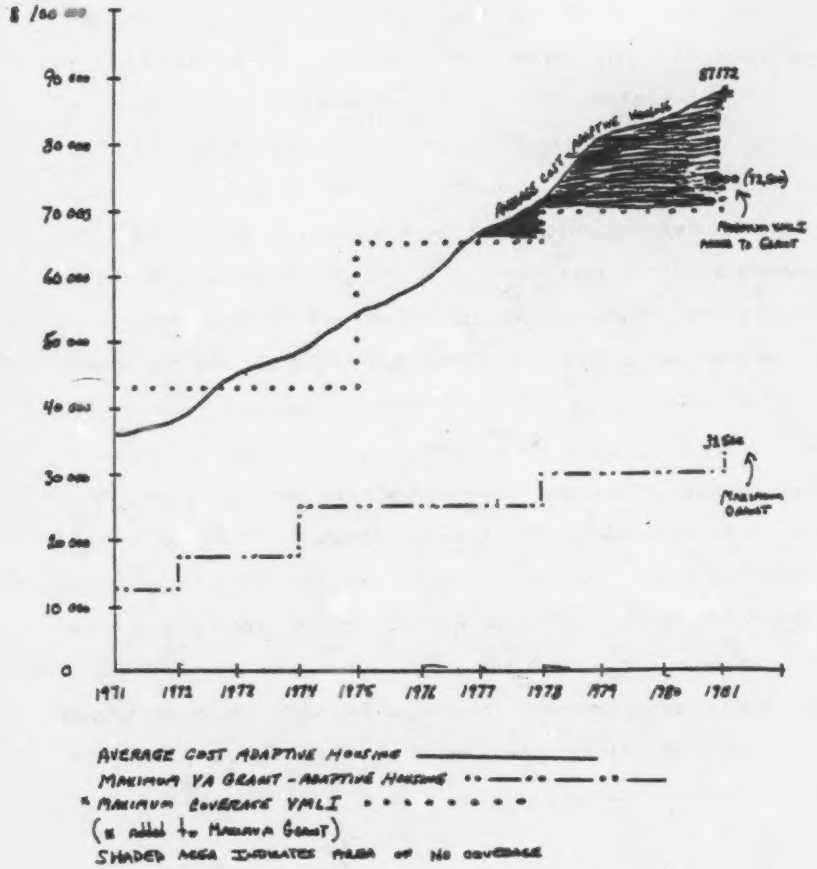
	SALES PRICE S/F EXISTING HOUSING		AVERAGE CONVENTIONAL MORTGAGE RATES	AVERAGE COST ADAPTIVE HOUSING	ADAPTIVE HOUSING GRANT
	AVERAGE	MEDIAN			
1981	78.3	66.4	13.19	87,172	32,500 (Oct. 1, 1981)
1980	72.8	62.2	11.85	83,842	
1979	64.2	55.7	10.04	80,642	
1978	55.5	48.7	9.03	71,511	30,000 (Oct. 18, 1978)
1977	47.9	42.9	8.65	66,626	
1976	42.2	38.1	9.25	57,789	
1975	39.0	35.3	8.92	54,626	
1974	35.8	32.0	8.10	48,511	25,000 (Dec. 31, 1974)
1973	32.9	28.9	7.29	45,156	
1972	30.1	26.7	7.33	38,745	17,500 (July 10, 1972)
1971	28.0	24.8	7.91	35,911	12,500 (June 6, 1969)
	(NAHB)*	(NAHB)*	(VA)*	(VA)*	(VA)*

*Source of information. National Association of Home Builders, Veterans Administration

Mr. Chairman, while the figures themselves provide evidence of the costs involved the following graph shows the continuous rise in costs, with the average cost of adaptive housing which is covered by VMLI absolutely higher in cost for the entire period.



Another illustration which indicates PVA's specific concern as presented today shows the average cost of adaptive housing, the maximum amount of the basic VA grant, and the maximum amount of VMLI coverage available.



This illustration indicates that a veteran who utilizes the maximum amount of the grant for adaptive housing and obtains the maximum amount of VMLI coverage and pays only the average cost for adaptive housing cannot be assured of providing mortgage-free housing for his spouse and dependents upon his death.

PVA also wishes to request that this Subcommittee increase the amount of coverage provided by "RH" policies. "RH" insurance is a special type of National Service Life Insurance (NSLI) which is available to veterans with service-connected disabilities. Any veteran released from active duty on, or after April 25, 1951, under other than dishonorable conditions, is eligible to apply for the insurance. Good health, except for the service-connected disability, is a requirement. This insurance is issued in amounts from $1000.00 to $10,000.00. However, the veteran can not purchase any amount which added to any other federal government life insurance otherwise held, would total more than $10,000.00. (For this purpose, Servicemen's Group Life Insurance (SGLI) or Veterans Group Life Insurance (VGLI) is not considered in counting the excluded amount). This type of insurance is available as a 5-year level term plan or as one of the permanent plans offered, except that totally disabled service connected veterans are not eligible for any of the endowment plans. A total disability income provision cannot be added to an RH policy. However, the policy does provide for the waiver of payment of premiums if the veteran is continuously totally disabled prior to his 65th birthday and remains so disabled for 6 or more consecutive months. This means that once the veteran's right to waiver is established, no payment of premium is required as long as the disability continues.

Mr. Chairman, PVA's concern is with the low amount of insurance coverage provided under this type of policy. The maximum of $10,000 is not sufficient in these times of high costs to meet the obligations for which it was designed.

PVA requests that the maximum amount of NSLI "RH" policies be increased to a higher level. A bench mark for the amount of increase could be the maximum amount available under Servicemen's Group Life Insurance. An alternative to raising the maximum amount provided by the VA would be to allow eligible veterans the opportunity to purchase additional amounts of coverage above the basic $10,000 presently provided. This alternative would add minimal costs of administration to the VA insurance program, yet allow those veterans concerned the opportunity to provide sufficient funds to allow their spouses and children a reasonably comfortable life-style. PVA believes the current economic situation and the effects of fiscal contraint being enacted by the federal government justify this modification. The present level of insurance coverage does not permit the catastrophically disabled veteran the opportunity to provide long-term financial security for his family. PVA has often testified about the hardship and dislocation a family faces when the veteran dies and the spouse and children must rely on drastically lower Dependency and Indemnity Compensation payments. PVA continues to receive information from widows who are forced to sell the family home when income is reduced and added expenses such as property taxes are increased. Also, we are currently seeing the results of cuts in federal programs such as education and Social Security on veterans widows and children. For example under the VA Pension Program, the Administration has proposed a re-definition of dependent child which would eliminate the child's eligibility for payments for post-secondary education. Also, changes to the Social Security Disability Insurance Program made by "The Omnibus Reconciliation Act of 1981," Public Law 97-101, eliminate similar benefits for dependent children who had previously qualified. This abrupt change will force many severely disabled veterans or their widows to make alternative financial arrangements for providing their children with post-secondary education. Unfortunately, further Administration proposals will eliminate many college assistance programs. The result may be many more students competing for lesser amounts of available aid. This situation makes it even harder for the families of disabled veterans who must seek new methods for providing their children the opportunity for post-secondary education. An increase in the maximum RH policy would allow the veteran the possibility of accruing sufficient funds available for borrowing to make plans for his children's education. Or, if he were deceased, the amount of coverage would allow the widow to maintain a family home and still provide for the education of the children.

Mr. Chairman, in conclusion I wish to reiterate PVA's concerns. We believe that Veterans Mortgage Life Insurance should be increased to reflect the rising costs of housing. Also, we believe "RH" National Service Life Insurance should be increased by one of the alternatives PVA has suggested to reflect the current cost of living and allow our Nation's severely disabled veterans a sufficient coverage to provide adequately for their families.

Mr. Chairman, this concludes my testimony. I will be happy to answer any questions that I can.

The American Legion
★ WASHINGTON OFFICE ★ 1608 "K" STREET, N.W. ★ WASHINGTON, D.C. 20006 ★
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For God and Country

March 24, 1982

Honorable Sam B. Hall, Jr., Chairman
House Veterans Affairs Subcommittee on
Compensation, Pension & Insurance
336 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Hall:

The American Legion takes this opportunity to express its views on two legislative proposals for consideration by you and your subcommittee on March 25, 1982. Each of these proposals would amend section 767 of title 38, United States Code relating to the Servicemen's Group Life Insurance Program (SGLI).

We fully support the figures and rationale of the first proposal allowing optional life insurance coverage of up to $65,000 for active duty members of the Armed Forces. Historically, active duty personnel have been excluded from private carrier insurances because of the personal risk associated with armed conflicts. For that reason, insurance programs have been made available to service persons under SGLI recognizing that military personnel deserve insurance protection which adequately meets obligations in the event of death. The availability of a $65,000 policy for active military persons is certainly reasonable.

The second proposal would restrict some SGLI coverage of Ready Reserve Volunteers. During hearings held prior to enactment of P.L. 93-289, the Veterans Insurance Act of 1974, The American Legion supported SGLI amendments providing coverage for the Reserve components of the military services. Our reasoning then, as now, recognized the importance of strong ready reserve programs to the nation's overall defense posture. In that regard, we believe that SGLI coverage provides at least one important recruitment and retention tool for the reserve components.

Before closing, we wish to make one other concern clear. Under current law each service has the authority to allow SGLI coverage to commence whenever it wishes. For the sake of fairness and practicality, we believe that all coverages should commence from the date active duty for training is begun. Although there is little need for coverage prior to training, it must be recognized that there are instances of death while undergoing basic and advanced training.

As always, your consideration of The American Legion's views is appreciated.

Sincerely,

E. Philip Riggin, Director
National Legislative Commission

cc: Each member of the subcommittee

National Military Wives Association, Inc.

2666 Military Road, Arlington, Virginia 22207 703-841-0462

March 31, 1982

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Mr. Chairman and Members of the Subcommittee,

The National Military Wives Association appreciates the opportunity to comment on proposals to improve Government Life Insurance.

The National Military Wives Association is comprised of wives, widows and family members of active duty and retired members of all the uniformed services. These women and family members share the tradition of commitment to the military. We are proud to support our spouses as they carry out the military mission of our country.

Military families adapt to a unique way of life. Frequent separations, family relocations and mobility, interrupted education for children, and hazardous and stressful duty assignments in peacetime as well as in time of war are accepted parts of the lives of military families. All too often, military families pay the ultimate price of the loss of a husband and father; in peacetime as in war, the military remains a hazardous calling.

Moving on an average of every two and one half years, military wives damage their own opportunities for career development and progression. Starting over again and again in entry level positions,

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they rarely qualify in their own right for employment benefits such as insurance or retirement plans. Transiency restricts earning ability and opportunity. Upon the loss of the husband and father, these family members are less likely than their civilian counterparts to have financial security and support available through their own employment. The protection that is available through programs such as SGLI is vital to the widows and children of our service people.

Last year, more than 53% of all DoD uniformed personnel were married, and additional numbers claimed dependent parents or children, according to the Armed Forces Information Service. Seventy nine per cent of all officers were married and more than forty five per cent of all enlisted personnel. In addition, some studies show that as many as twenty per cent of first term enlisted personnel claim dependents. Financial security for dependent family members is a major concern for the majority of our men and women in uniform. Through programs such as SGLI, service members can be assured of financial support for their families in the event of tragedy.

The National Military Wives Association supports the proposal to raise the level of maximum

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coverage under Servicemen's Group Life Insurance to $65,000. Maximum coverage at a level comparable to federal and postal employees will be an incentive to those choosing a career in military service, and will provide a practical measure through which service members can assure the financial protection of their dependents. In these days of rising inflation and cuts in protection through other federal programs such as Social Security, an expanded SGLI is an important consideration.

The National Military Wives Association also supports the proposal to amend 38 U.S.C., 718 and 753 to permit the assignment of proceeds in disputed claims without regard to the restrictions now imposed by the permitted class of beneficiaries.

The National Military Wives Association appreciates the opportunity to comment.

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